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ABSTRACT

To determine adequate, fair, and efficient methods of public school finance for the state of Illinois, this study collected and synthesized data on state revenues collected in 1980-81 and distributed to school districts in 1981-82. Researchers examined current alternative methods of distributing state and federal funds to Illinois public schools (including the current categories of aid formulas and means of computing districts' fiscal needs and capacities), the six current options in generating revenue, and the most feasible plans for streamlining school finance options to meet the problems of local districts. Following project consultants' options and responses to proposed alternatives, the project findings are condensed into three categories reflecting current practice and recommendations: distribution of state and federal funds, generation of revenues, and management of resources. (JW)

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EA 016 246

EDUCATION IS EVERYONE'S FUTURE

The Report of the Technical Advisory Panel

A Comprehensive System for Financing Illinois Public Education

Illinois Public School Finance Project

Illinois State Board of Education

September, 1983

August 15, 1983

Walter W. Naumer, Jr.
Chairman
Illinois State Board of Education

and

Dr. Donald Gill
State Superintendent of Education

The Technical Advisory Panel was asked by the State Board of Education and State Superintendent of Education Donald Gill to assist in the study of the Illinois public school finance system for the purpose of making specific recommendations to the State Board for improving the system. This report, which is based on 26 individual studies and contains 44 recommendations for changes in the ways in which Illinois' public elementary and secondary schools are financed, fulfills the Panel's assigned task. Panel members wish to emphasize that they have served in their individual capacities rather than as representatives of agencies or organizations with which they are affiliated.

The thrust of the Panel's efforts was to recommend a system of school finance that would not be radically altered by shifts in enrollment and variances in the state's economic condition. In keeping with this goal, it should be also noted that this study does not attempt to recommend a specific level of financing for education. Clearly, the principal emphasis of the Panel's work has been to identify and recommend a process for equitably distributing available educational resources.

During the 24 months that the Panel invested in this study, hundreds of complex and interrelated components of Illinois' school finance system were carefully examined and reexamined. As could be anticipated, at the conclusion of our study, there were still a number of unanswered questions and differences of opinion on some issues on which we offer recommendations. While it is appropriate to bring the initial phase of our work to closure, it is the consensus of the Panel that some of the recommendations which follow will need refinement before they can appropriately be translated into public policy. However, although some TAP members offered reservations, dissent or concurring opinions on select issues (included at the conclusion of this report), it is the majority view that as the Panel's recommendations are considered and approved by Illinois policy makers and implemented by school system practitioners, the methods by which revenues for education are generated, distributed, and managed will undergo significant and needed improvements.

Finally, it is important to note and acknowledge the substantial contributions that legislative, government agency, and education leaders have made to this study and the resultant recommendations. The views of these leaders helped give focus to the issues and assisted the Panel in shaping its recommendations.

Respectfully,

Robert A. Jamieson

Robert A. Jamieson
Chairman
Technical Advisory Panel

Illinois Public School Finance Project
Technical Advisory Panel

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September 1, 1983

Dear Educators and Concerned Citizens:

On May 28, 1981, the State Board of Education directed that a technical advisory panel be appointed and convened to advise and assist in the development of public school finance system recommendations for the State Board's approval. In the months that followed the State Board's directive, the Technical Advisory Panel, a 14 member panel composed of public and private employment sector members, was appointed and began its task, the Review/Liaison Group was selected, and Project research was undertaken.

The Panel's report and recommendations are timed particularly well. The demands being made of public education by many sectors of our society are clearly increasing. Somewhat paradoxically, however, competition for funds needed to provide existing educational programs has also sharply accelerated during the past few years. This confrontation between greater demands being placed upon the educational system and the reality of reduced levels of resources needed to support the system is not the manifestation of hollow rhetoric. Unfortunately for many school districts in Illinois, the dilemma is quite real and requires immediate resolution.

Complex school finance issues which center upon various elements of equity and adequacy also press for meaningful and timely answers. Potential remedies to these and other public school finance problems are the subjects of this report. Having reviewed the Technical Advisory Panel's report and recommendations, I am pleased to observe that the Panel has done its task very, very well. In my opinion, the report offers workable solutions to many of the school finance problems that have plagued Illinois education in the past and still confront it today.

The Technical Advisory Panel's findings will serve as a basis for legislation that will be presented in the Spring, 1984 session of the Illinois General Assembly. Prior to the development of legislative proposals, the Panel's recommendations will be the subject of public hearings conducted by the State Board of Education and School Problems Commission and will then be considered for adoption by the State Board.

Sincerely,

Donald G. Gill

Donald G. Gill
State Superintendent
of Education

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I. The Issue

The goal of the State Board of Education's Public School Finance Project has been to develop recommendations for a new system of financing public schools that 1) generates adequate revenue for education on a basis that is fair to taxpayers; 2) distributes state funds for education at levels that are adequate to the extent revenues allow and in ways that are fair to school districts and students; and 3) facilitates local management practices that utilize resources effectively and efficiently.

Two years of research and analysis were undertaken by educators, interested citizens, government officials, and State Board staff researchers to provide the information necessary to achieve the State Board's goal. Stated as a question, this study addresses the issue: Based on available research, what recommendations can be made that if implemented would most effectively fulfill the State Board of Education's objectives for a comprehensive system of finance for Illinois public schools?

II. Historical Features

In 1973 when legislation creating the Resource Equalizer state aid formula was enacted, there was a widely held belief that the annual struggles of altering the general state aid formula would be a thing of the past. However, as Illinois educators are quite aware, this expectation proved to be unfounded. Almost yearly, changes have been made to the Resource Equalizer formula to address pressing problems as they arose. Frequent changes were made to this general state aid formula to prevent the distribution of fewer dollars resulting from the impact on the formula of increasing assessed valuations and declining enrollments.

There remains, at best, only a token relationship between the Resource Equalizer formula as passed in 1973 and the current version of the state aid formula. Changes to the Resource Equalizer formula have been made in a disjointed or "bandaid" fashion and have altered the formula's structure. School finance experts have observed that, due to the many changes put into effect in recent years, the Resource Equalizer formula currently operates as a loosely structured foundation formula and thus serves few, if any, of the purposes for which it was enacted.

Each of the changes made to the Resource Equalizer formula during the past decade responded to a particular problem, but none corresponded to a "master plan" for public school finance. Until the State Board of Education adopted their General State Aid Principles in November 1980, a long-range or master plan did not exist. The State Board's General State Aid Principles provide not only a well-defined structure for long-range planning for state aid for education, but also for the development of a uniform basis for determining the potential effects on educational services of proposed funding-level changes.

Guiding the State Board in its development of the principles to govern general state aid was the question, "What should the system (general state aid) be in the future?" The General State Aid Principles the State Board adopted were the product of State Board members, advisory groups such as the State Superintendent's Advisory Committee on Financing Public Education, State Board staff, and public testimony. The six principles that are germane to the issue under study and that give definition to the general state aid system the State Board of Education believes should exist in Illinois are as follows:

1. Adequate Funding Level

   The general state aid formula should guarantee for all public school pupils in Illinois combined state and local financial support sufficient to operate an adequate educational program. Editor's note: The State Board defined "adequate educational program" in the following context: First attention will be given to the implications of defining an adequate funding level in terms of the previously adopted recommendations of the Citizens Commission on School Finance (1977) that the funding level be the expenditure level per pupil for the district ranked at the 75th percentile.

2. Equity

   The general state aid formula should neutralize the effects of factors beyond the control of local districts which cause differences in real resources or service levels per pupil.

3. District Organization

   The general state aid formula should be neutral as far as school district organization is concerned.

4. Local Control

   The general state aid formula should allow for variations in real resources or service levels per pupil above the amount guaranteed from combined state and local resources which result from local preferences for educational services.

5. Minimum General State Aid/Minimum Local Effort

   The general state aid formula should require all local school districts to maintain a specified minimum local tax burden, but should provide some financial support for each district.

6. Flexibility

   The general state aid formula should contain built-in mechanisms for responding to changing conditions affecting the distribution of general state aid.

Public School Finance Project

Six months after the principles were formally adopted, the State Board in May 1981 initiated the Illinois Public School Finance Project. The State Board directed that an advisory committee be appointed to provide guidance and technical assistance to the State Superintendent and staff in the research that was to be undertaken. As set forth by the Board, the Project's goal was to develop recommendations for a comprehensive finance system that could be implemented in fiscal year 1985 for Illinois public elementary, secondary, adult, and vocational education.

During the summer and fall of 1981, Project staff developed a preliminary study plan which identified 26 topics to be researched. The plan included studies of local district organization, need, fiscal capacity and effort, alternative ways of generating revenue for education, program and fiscal adequacy, inflation, overburden factors, cost of education index, program cost differentials and many others. Since State Board staff lacked the required highly specialized technical expertise, requests for proposals were prepared by Project staff and distributed nationwide to school finance consultants for the purpose of conducting the cost of education index and program cost differential studies.

During this same period, the State Board and State Superintendent of Education Dr. Donald Gill completed their appointments to the Project's advisory committee, the Technical Advisory Panel (TAP). Robert Jamieson from Peoria was selected to serve as chairman of the Panel which is composed of 15 public and private sector members. The TAP held the first of its quarterly meetings on December 14, 1981, approved preliminary study plans and selected a Project review and education organization liaison group to serve as a statewide communications network for the Project. Twenty-seven education associations, legislators and other interest groups and individuals who served on the Review/Liaison Group provided the TAP with important opinions and analyses of Project studies.

The opinions of Illinois educators and interested citizens were actively sought by Project staff from the very inception of the project. In the fall of 1981, Project staff began a series of presentations at the Superintendents Conference, the IASB/IASBO/IASA annual conference, and meetings throughout the state of various education interest groups. The presentations were made not only to inform the education community of Project developments, but as importantly, they provided opportunities for the Project staff to listen.

Many of the concerns expressed by those attending the Project presentations centered on possible "hidden agendas," the composition of the Technical Advisory Panel and the need for assurances that individual interests would be protected. Generally, those who offered comments wanted to be assured that the groups they represented would have direct communication into the Project.

Another concern expressed was the need to minimize the amount of data to be collected from local districts. Fortunately, there was no need to collect additional data from school districts for any of the agency-conducted studies, and the data collection for the contracted studies was limited to one district questionnaire and a questionnaire for a sample of educational personnel.

There was also concern regarding the timeline for the Project. Some people believed it would be impossible to complete the studies in the limited time period allotted for the Project. However, others thought that the Project schedule was too lengthy, that something needed to be done immediately to revise the system of financing Illinois' public schools.

Other concerns frequently expressed were fears that a new funding system would be too expensive and that, because of the comprehensiveness of the research approach being taken, the system that evolved would be too complicated for most to understand and support. The Technical Advisory Panel, Review/Liaison Group and State Board Project staff have made extensive efforts in the past year and a half to attempt to supply the information necessary to gain support of the Project. These communication efforts will continue.

Consultants Selected

Twenty-four of the 26 Project studies were completed by State Board staff. As previously noted, the cost of education index and the program cost differential studies were conducted by consultants to the Project. Based on their unique technological approach to addressing the objectives outlined in the State Board's request for proposal, Associates for Education Finance and Planning (AEFP) of California was chosen to conduct the two studies.

While the AEFP proposal contained a number of distinct strengths not included in other proposals, possibly the strongest attribute of the AEFP proposal was the recommended methodology for developing educational program cost differentials in Illinois public school districts. Based on the AEFP approach, it is possible to relate educational services being provided to the education funding mechanism in a way that provides accountability and allows for integrated local, state and federal planning.

Of those consulting firms that submitted bids (Note: No Illinois individual, firm, or association submitted a proposal.), only AEFP recommended developing program cost differentials by specifying in programmatic terms the elements of the educational programs to be provided. The program cost differential proposals received from other contract bidders focused upon verification of prior year spending practices of school districts, a procedure which does not address the appropriateness or efficiency of expenditures. AEFP began the cost of education index and program cost differential studies, which the consultant firm combined into a process that they identified as the Resource Cost Model, in December 1981, and with extensive assistance from Illinois school district officials, Technical Advisory Panel members, State Board staff, and many others, the consultants submitted their final report in December 1982.

The cost of education index and program cost differentials, or Resource Cost Model, were introduced as components into the Illinois Public School Finance Project to produce for each school district the predicted/estimated costs for an appropriate level of educational services. The information allows for:

a) Identification of local school district fiscal need,
b) Targeting of state funds for addressing particular state educational goals,
c) Establishing relationships of fiscal need among district types,
d) Recognition of the different rates of change in enrollments and costs.

It should be noted that the TAP agreed that the terms *adequate* and *appropriate* require distinctive definitions. They are not used interchangably in this report. *Adequate* and *adequacy* refer to concepts, programs, or requirements that carry with them notions of students' rights, legality, or sanctions.

Appropriate refers to the level of services identified as those to be funded at least in part by the state, in light of current educational technology, available funding, and consistency with preliminary determinations of program quality.

Implementation Schedule

The original study plan for the Illinois Public School Finance Project targeted implementation of the School Finance System recommendations contained in this report for fiscal year 1985. Based on the perception that changes in the property tax system would likely be seriously considered during the 1983 spring legislative session and that this could prove beneficial for introduction of the new school finance system being developed in the Project, the Technical Advisory Panel in November 1982 agreed to attempt to accelerate the Project's study schedule.

By early 1983, however, the prospects of passage of changes in the property tax system in the spring session had dimmed considerably, and the Panel decided on February 9, 1983 to return to its original schedule. Also guiding the TAP's decision was the conviction that the accelerated schedule had not allotted adequate time for school officials and the public to participate in the development of the recommendations for the proposed new system of financing public education in Illinois.

To aid government and school officials in evaluating and implementing one of the innovative concepts that is being recommended in the new system, three school finance experts were engaged in May, 1983 to review and appraise the proposed method of calculating the cost of education index for Illinois elementary and secondary school districts. The consultants' principal tasks are to examine the cost of education index to insure its technical validity, identify procedural simplifications, and recommend ways of implementing into Illinois' public school finance system this method of measuring price differences. The final report of the consultants is due by October 31, 1983.

III. Research Questions

1. What are the alternative methods of distributing state and federal funds for Illinois public elementary and secondary education and what are the implications of each?
2. What alternatives exist for generating revenue for Illinois public elementary and secondary education and what are the implications of each?
3. What possibilities exist for improving the efficient use of resources for Illinois public elementary and secondary education and what are the implications of each?

IV. Research Methodology

The research for this study involved three phases. Literature available regarding education finance was reviewed, including literature reviewed for previous Public School Finance Project studies of individual finance system components, as well as documents which took a broader view of school finance. Secondly, the studies conducted as part of the Illinois Public School Finance Project were reviewed and the conclusions and recommendations of these studies were evaluated based on the views expressed by the Technical Advisory Panel.

Finally, simulations of alternative methods of distributing state and federal funds for Illinois public elementary and secondary education and alternative methods of generating revenue for education were made using a variety of revenue sources and alternative distribution mechanism components. These simulations, which were completed to determine the various alternatives' effects on distribution of state aid or revenue generation, compare the effects of the changes on revenue sources and distribution formulas in 1981-82, the latest year for which comparable data are available. The results of all the simulations that were processed are available from the State Board of Education, although only those simulations that provide information relating to the recommendations are reported in this document. State Board of Education staff are currently developing an updated data base (fiscal data for 1982-83 and enrollment data for 1981-82) to measure how the Panel's recommendations would have affected the distribution of resources in 1982-83

V. Data Identification

Exhibit A contains a listing of the individual data elements used in this study. In general, the data used as comparative baseline information included 1980-81 pupil-generated revenues which with few exceptions were distributed to school districts in 1981-82. Data used included general state aid, state and federal funds (claims, not prorated allocations) for special education, gifted education, vocational education, federal compensatory education, bilingual education, adult education, and transportation and local tax funds.

As has been frequently noted throughout the course of this Project, the recommendations that were developed for a comprehensive public school finance system resulted from a highly structured research and data analysis process, portions of which must be repeated on a yearly basis. Also, it should be noted that some of the data relating to certain aspects of revenue generation and local school district need were imprecise. Certain pupil placement and utility assessment data were rough estimates which will need to be refined prior to implementation of the new school finance system.

In addition, much of the data used to form the basis for the initial school finance system recommendations will require frequent scrutiny to insure its continued appropriateness. Some of the general categories of data that will need to be updated prior to implementation and on a regular basis after implementation are outlined below.

1. All of the Project's final simulations and analysis were conducted using data that were comparable with the data used in the Resource Cost Model (RCM) analysis (1980-81 enrollments). The fiscal data that were collected and synthesized were for the 1981-82 school year, which were the most recent data available. The task of projecting program costs and district indices for 1982-83 and beyond remains to be done.
2. The only known area in which inconsistent data were used was in the analysis of the impact on state and local revenues of state assessment and taxation of public utility property. There appears to be some confusion between the relevant authorities about the location of these properties. Data supplied by the Environmental Protection Agency (EPA) regarding the number and location of these utilities did not match data supplied by state and county revenue and assessing officials. The tax rates, taxes paid and assessed values reported for utilities were for 1981. These data were used with 1979 school district assessed values for calculating state funding and with 1980 school district assessed values for calculating local revenues.

Data Presentation and Discussion

Research Questions Examined

1. *What are the alternative methods of distributing state and federal funds for Illinois public elementary and secondary education and what are the implications of each?*

The alternative methods of distributing state funds may not be infinite, but they are quite extensive. They involve at least two categories of formulas: equalizing and non-equalizing; at least four different types of equalizing formulas: full state assumption, foundation formulas, percentage equalizing formulas, and district power equalizing formulas; three components used in these formulas: local district fiscal need, local district fiscal capacity, and local district tax effort; and a variety of measures of each of the components. Since there are a number of different educational programs and policy makers may decide that the programs do not need to be funded uniformly because the purposes of the programs differ, the magnitude of the alternatives becomes even greater. Consequently, the range of alternatives reported here will be only those which are considered to be most feasible based upon available research and resources.

Categories of Formulas

Illinois currently funds different categories of educational programs in a variety of ways and on bases of equity ranging from some to none. That is, a large amount of general state aid is distributed through an equalizing formula and smaller amounts of funds are distributed in the form of primarily unequalized grants.

As a result, while attempts have been made through the distribution of general state aid to minimize the differences in resources available to local school districts for general educational purposes, funds for such programs as special education and bilingual education are not equalized and districts which have more local ability to pay are able to provide more services and consequently receive more from the state. For those programs that the state provides 50 percent of funding or a flat amount that is less than the full cost of a specific program, districts better able to provide the other 50 percent or the balance of the cost will be able to operate more and higher quality programs than the districts unable to support the balance of the cost.

To better illustrate this problem, if District A and B both must pay $30,000 for each special education teacher they hire and the state provides $6,250 per teacher, each local district must generate the remaining $23,750. If there were 10 students in each of the classes, the per student cost for the teacher alone would be $2,375. Since the state currently provides both districts equalized general aid not to exceed $1,634 per pupil, the districts would have to generate the remaining $741 from other sources. If District A has a higher EAV per pupil than District B, it could generate the $741 at a lower tax rate than District B. If District B were unable to raise additional tax revenue, it would be required to use funds generated for some other purpose. For every additional special education teacher, District B would have to use greater amounts of funds that were generated for other purposes or tax itself at a higher rate than District A.

The effect of this financing problem is that the costs for this particular special program fall disproportionately on the districts least able to support them without assistance. Thus, some programs in these districts suffer in quality or quantity—the special education programs are underfunded, the other programs are "robbed" to pay for the special education programs, or the taxpayers must pay substantially higher taxes to raise the same amount of revenue. The conflict between special education and other programs which are forced to compete for limited dollars on a nonuniform basis is inevitable.

The issue here is the interaction of horizontal and vertical equity for students. That is, students with similar needs should be treated similarly (horizontal equity), but students with different needs should be uniformly treated differently (vertical equity). Is it less important to provide equity in the services provided to students in special education, vocational education, gifted, bilingual, compensatory, and adult education programs than to students in the "regular" programs? Current state policy would imply that the answer to that question is yes. Current policy suggests that within the category of "regular" education, for which the bulk of general state aid is provided, students should be treated equitably in terms of the funds for their education. Current policy also suggests that within the categories such as special education, bilingual education and others, equity in the provision of funds is not a goal. Additionally, there appears to be no basis in fact for suggesting that current policy reflects concern about the relationships among the program categories and thus the uniformly different treatment of different student needs.

If equity in the provision of services to students is a goal and resources continue to be limited, the only fair way to distribute funds is through an equalizing formula. The intent of an equity goal is not to redistribute funds among educational program categories, that is, from gifted to special education or from adult education to bilingual education. Rather, the intent of an equity goal is to guarantee a student, whether a student is in a special education or a regular program, in school District A access to the same level of services as a comparable student in District B, regardless of the ability or willingness of the taxpayers in the communities to pay for these services. The student in school District B might still receive more or higher quality services because the local taxpayers decided to tax themselves higher and offer services beyond those identified as appropriate for state financial support, but not because limited state resources had been inappropriately allocated to school District A.

Nonequalizing Formulas

An alternative to the use of an equalizing formula is the use of a flat grant distribution mechanism for some of the available state revenues. Under the current finance system in Illinois, the flat grant has been used to guarantee that all school districts receive some state funds. The continued use of a flat grant is consistent with the state aid principle that the state should provide some financial support for each district.

In Illinois, school districts currently receive *either* a flat grant or equalizing aid. An option to this approach would be to provide a flat grant for all students in all districts of the state and then to calculate equalizing aid in addition to the flat grant. This funding method could provide some state funds to all districts as a first tier of funding and improve the equity of the system by not reducing the equalizing effect of the equalizing aid. A flat grant of $100 per RCM enrolled pupil would have generated approximately $200 million in state funds to local school districts in 1981-82.

It could be argued that the purpose of a flat grant would be addressed and has been addressed in the past when funding for programs such as special education, bilingual education, vocational education, and others are considered along with general state aid. For example, in 1980-81 only two school districts did not receive some state funds for programs funded on a categorical basis. If funds were distributed through an RCM based equalizing formula, all but the most wealthy school districts would probably receive some state funds for education, thus reducing the need for a substantial flat grant.

Equalizing Formulas

A second decision to be made involves the type of formula to be utilized.

The primary purpose of an equalizing distribution mechanism for state funds for education is the neutralization of factors that are *beyond the control* of local school districts that cause differences in expenditure level. Examples of such factors are the educational needs of the pupil population to be served; the prices districts must pay for the same or similar goods and services; the ability of the local community to support its educational program, that is, its ability to generate local revenue; and perhaps some others.

The variation in equalizing formulas results more from the selection of component measures and the emphasis which is placed on these components, rather than the mathematical equations that are used. The four primary types of equalizing formulas are full state assumption, the foundation formula, the percentage equalizing formula, and the guaranteed tax base or district power equalizing formula.

Full State Assumption

Full state assumption is an alternative that is not likely to be given serious consideration by Illinois lawmakers. Illinois, with its historic concern for local control, is unlikely to adopt a funding scheme that would at the least *appear* to remove from local taxpayers and parents control over the educational programs offered in their local communities. Hawaii, with only one school system for the entire state, is the only state using full state assumption.

In brief, full state assumption of costs of education usually involves a uniform statewide property tax for generating funds to be distributed by the state. This funding approach has traditionally meant the use of a high flat grant amount per pupil. However, through the use of a resource cost based approach, the costs of a specified set of educational services for each district could be identified, and the state could fund that level of education. According to available literature on the subject, full state assumption has not traditionally allowed for a range of expenditure levels and the resulting variations in program services. Theoretically, however, it would be possible to have a full state assumption program for the costs of a standardized set of educational programs which have been determined by policy makers, and local districts could have the option of providing more services at their own expense. Full state assumption of funding for an appropriate level of educational services in all school districts may be the only final solution of equity problems in Illinois and perhaps the only final solution of constitutionally related problems as well.

The primary advantage of full state assumption is that it allows district policy makers, whether administrators or board members, to allocate most, if not all, of their time to consideration of issues that directly relate to the most effective and appropriate way of educating the pupils to be served, rather than investing time in determining how to generate money from the local tax base or how to make a particular state aid formula work to their advantage. A second advantage is that it promotes equality of educational opportunity for all students by providing funding for a standard level of educational services in all parts of the state.

A major disadvantage is the perceived loss of local control of both funding levels and educational program decisions. The common "wisdom" is that the control of educational programs depends on the source of the revenue. Therefore, so long as this belief holds, communities will oppose full state funding.

Full state assumption fully addresses both the issues of taxpayer and student equity because it provides funding for a uniform set of services to all students in the state for the same tax rate throughout the state. If costs rather than expenditures were fully funded, this funding approach would promote the efficient use of resources.

Foundation Formula

The foundation formula, frequently called the minimum foundation formula or Strayer-Haig formula, has a history of linking educational services to funding. This formula was the result of work conducted by George Strayer and Robert Haig in the 1920's in New York. Their approach was based on the concept that there was some set of minimum services that students should receive regardless of where they lived within a state. Strayer and Haig maintained that once these services were identified, costs could be assigned to them, thus defining a minimum foundation level of services which determined the amount of money the state should share in funding. Therefore, the focus of the foundation formula is on the costs of a specified level (sometimes subjectively interpreted to be a "minimum level") of educational services for students.

A second major part of their formula was the inclusion of a qualifying tax rate which each local school district was required to maintain in order to receive equalizing aid. The theory was that if a district wanted and needed state funds, local taxpayers should be willing to maintain some minimum effort. Those districts that were able to generate the foundation level without maintaining the qualifying tax rate were considered by standards of the formula to be wealthy districts that did not need state funds. The higher the qualifying rate, the lesser the amount the state must provide to fund the equalization program.

The foundation formula is as follows:

$$\text{General State Aid Per Pupil} = \text{foundation level per pupil} - (\text{local fiscal capacity per pupil} \times \text{qualifying tax rate}).$$

An advantage of the foundation formula is that it provides a specific uniform level of funding (or services) for all districts which maintain a specified qualifying rate. Thus, districts that are willing to maintain some minimum local tax effort can generate enough funds to provide educational services regardless of their local fiscal capacity. In the past, a major problem with the foundation formula has been the difficulty states have experienced in maintaining funding for a foundation level that was affected by inflation and changes in the programs offered by school districts. Thus, frequently the amount guaranteed under the foundation level no longer was enough to provide the foundation program. If the costs of providing the foundation program were kept current and funding were available to provide these services, then the major weakness of the foundation formula would be eliminated. (This weakness also applies to other formula types.)

A foundation formula is designed to focus on student equity through the emphasis on the foundation program and funding level.

Percentage Equalizing Formula

The percentage equalizing formula focuses on the relative proportion of funds that the state should provide. That is, it does not guarantee any foundation amount in combined state and local funds. Rather, it guarantees that the state will provide a specified proportion of the level of fiscal need for the district of standard wealth. Under this formula, the amount of state funds each district is eligible to receive is determined in part by quantifying the relationship of each district's wealth to the district of standard wealth. The equation for the percentage equalizing formula is as follows:

$$\text{General State Aid Per Pupil} = \left[1 - \left(A^{*} \cdot \frac{\text{local fiscal capacity}}{\text{state standard fiscal capacity}}\right)\right] \times \text{local district fiscal need or expenditure level per pupil}$$

*"A" is the percentage of the total fiscal need per pupil to be provided by the school district of standard wealth.

The primary advantages of the percentage equalizing formula are its flexibility and versatility. Because it employs the use of a fiscal capacity ratio,

$$\frac{\text{local fiscal capacity}}{\text{state standard fiscal capacity,}}$$

sophisticated measures of fiscal capacity can be easily utilized in an index form. These measures are somewhat more difficult to apply to other formula types. Additionally, it provides that the state will contribute a larger proportion to the budget of poor districts than wealthy districts (regardless of how wealth is defined). Among the disadvantages of the percentage equalizing formula is the fact that it does not, in its pure form, ensure adequate educational resources. Instead it specifies that the state will participate in funding a certain proportion of whatever the district decides to spend. As a result, it can become a formula that provides more state funds to districts that are locally wealthy and can and do spend more. Additionally, if expenditures, rather than costs are used as the measure of local fiscal need, the formula can encourage the inefficient use of resources.

Guaranteed Tax Base Formula (GTB)

The guaranteed tax base formula of which the Resource Equalizer formula is an example is designed to focus on taxpayer equity, rather than student equity. Although there are several variations of this type of formula, each variation essentially provides that the same tax rate in districts with varying fiscal capacity per pupil (at or below the guaranteed tax base level) will generate the same level of combined state and local funds. The basic equation for a guaranteed tax base formula is as follows:

$$\text{General State Aid Per Pupil} = (\text{guaranteed tax base per pupil} - \text{local tax base per pupil}) \times \text{local fiscal need per pupil} \times \text{local tax effort}$$

Another variation of this formula establishes a chart relating tax rates and revenue levels allowing a district to determine its revenue level by selecting its tax rate or *vice versa*. Such a chart might look like this:

Tax Rate	Revenue Level Per Pupil
$1.00	$ 600.00
$1.50	$ 900.00
$2.00	$1,200.00
$2.50	$1,500.00

The primary advantage of a guaranteed tax base formula is its provision to local school districts of equal ability to provide revenue for educational services up to the guaranteed tax base amount. That is, local decisions regarding expenditures and tax rates determine the amount of state funds the local district is eligible to receive. This formula type is supportive of local control and taxpayer equity.

The major disadvantage of the guaranteed tax base formula is that the amount of revenue local districts have available for education is disproportionately determined by the level of income of the local community. This occurs because of the relationship of tax rates to income, in that the higher the local income level, the higher the tax rate is likely to be. This phenomenon can most easily be observed in "bedroom" communities with little industrial property resulting in relatively low to moderate assessed values per pupil, but high tax rates because the income levels of white collar workers as a group tend to be higher. This higher ability to pay, which is based on higher incomes with which to pay property taxes, and the desire for higher quality education for their children that is usually associated with those earning higher levels of income frequently result in higher tax rates. GTB formulas frequently lead to increased tax rates and to greater variations in expenditures per pupil and do not necessarily promote the efficient use of resources.

Local School District Fiscal Need

The components to be used in an equalizing formula must also be identified. One of the formula components that must be defined is local school district need.

In a recent article, Arthur Wise and Linda Darling-Hammond, both of the Rand Corporation, raise the question of "need for what?"[1] They take the position that need is the difference between state/local educational goals and that which the student has attained. Because (a) educational outcome standards have not been specified in Illinois and (b) there does not appear to be a consensus on exactly what resources and what instructional technology will yield specific outcomes for pupils, this discussion of need as it relates to equity in outcomes will concentrate on equity of resources for services. The specification of educational outcome goals and standards (program adequacy) will allow even greater progress to be made in assessing local school district fiscal need for purposes of funding. While no outcome goals and standards are recommended in this report, the Panel does recognize the need for the development of program adequacy measures.

The principles of horizontal and vertical equity are also part of the foundation of the need component. That is, students or school districts with similar needs should be treated similarly, but students or school districts with different needs should uniformly be treated differently. The following factors have been identified as accounting for differences in local school district fiscal need. Measures of fiscal need will be evaluated based upon the extent to which they recognize and account for these factors. The factors include:

a. Cost differences resulting from differing resource needs for the provision of services to all pupils (including "regular" services as well as those for high-cost programs or those for special needs pupils);

b. Cost differences resulting from variations in the prices districts must pay for similar goods and services;

c. Cost differences resulting from extremes of sparsity or density of geographic location of pupils;

d. Cost differences resulting from high concentrations of poverty-level pupils.[2]

District fiscal need is the sum of the resource needs of the pupil population plus the unique cost-related circumstances associated with the district itself, such as the last three factors listed above.

Resource price variations are measured through interdistrict cost indices. The only states to implement resource price indices have been Florida and Ohio. While for several years Florida has had a cost of living index for its school districts, Ohio implemented a county-level cost of education index in 1982. The Ohio index is based on prevailing wages in the labor markets. In recent years, economic models from industrial labor market research have been adapted for use in the education labor market and have allowed for more sophisticated analyses of variation in educational costs.

The recognition of district need has been addressed historically in several ways. The needs of "regular" students have been addressed on a pupil basis through general state aid formulas. That is, equal dollars were allotted for each regular pupil. Additional funds have been provided to educate pupils with educational needs that exceed those of the regular pupil.

A basic measure of district need is the pupil count. In theory if all other things are equal, a district with 1,500 pupils will have a greater fiscal need than a district with 500 pupils. The basis for the pupil count in Illinois has been pupils in average daily attendance. Alternative measures of need are pupils in attendance for a shorter period than a year, e.g. average for a week or at two points in time throughout the year. Pupils enrolled is another measure that could be used whether averaged over a year or taken at some point or points in time. Another term of measurement of need aggregates pupils into instructional units, which addresses marginal costs concerns but does not eliminate the need to count the pupils. Pupil counts would be used in some way by any method of accounting for unique local school district fiscal needs including pupil weightings, excess cost calculations, or the use of a resource cost model.

Pupil Weightings

A number of states use pupil weightings to provide additional funding for high-cost educational programs. The methodology for generating the weights uses past expenditures for a particular program compared to the regular program in that district. While this does hold interdistrict variations constant, it does not guarantee intradistrict uniformity in educational quality. That is, the program that is to be compared to the regular program could be exemplary at the expense of the regular program. Thus, the "cost" difference which is translated into a pupil weight may reflect differences in educational quality and not just differences in the costs of providing services of comparable quality to pupils with different educational needs.

Pupil weights have primarily been used to account for differences in educational program costs and thus correspond to program cost differences (PCD). Resource price differences, corresponding to those measured by a cost of education index (CEI), because they are interdistrict in nature, have not been related to pupil weights. (Both the CEI and PCD components are discussed in detail later in this report.) Pupil weights have been used as the mechanism for distributing funds to compensate for higher costs associated with sparsity, density, and poverty. Frequently, however, the weights assigned to compensate for these cost factors were not determined on the basis of what the relationships should be, but rather were generated on the basis of past expenditures.

The advantage of pupil weights is that once they are determined, they are fairly simple to understand and apply. The introduction of pupil weightings did mark a big step in the direction of accounting for variations in the educational needs of pupils and the corresponding need for varying fiscal resources by school districts. Pupil weights also allowed the costs of these higher cost programs to be shared by the state and the local school district through their use in general aid equalizing formulas.

Generally, however, the method used to determine the weights is to base them on previous expenditures rather than costs. Pupil weights also can serve as an incentive to mislabeling pupils into categories that generate more resources than the services provided to the students cost. It could be argued that independent resource price, sparsity/density and poverty factors could be applied in conjunction with pupil weights to address all factors associated with district fiscal need. Pupil weights really only address unique pupil needs and do not do a very effective job of accounting for unique district needs.

An additional problem with the use of pupil weightings results from the fact that they are based on pupil units rather than instructional units. As enrollments increase or decline, pupil weights result in large increases or decreases, respectively, for every student gained or lost. As Illinois school administrators can readily document, costs do not increase or decline on a one to one basis with gain or loss of pupils. Rather, within some range, a few pupils can be added to or removed from a class with little change in the resources needed for the classroom.

Excess Costs

The use of excess costs as a measurement of local school district need assumes that the needs of regular pupils are uniform and that the costs beyond the program for regular pupils should all be borne by the state. This approach allows the local school districts to provide services to meet the differing needs of their students without bearing unequal fiscal burdens.

Although select aspects of the unique financial needs created by the problem of student population sparsity have been addressed by an excess costs funding approach, this funding method has seldom been used to compensate for resource price differences or poverty-related need differences. Some states have provided total funding for transportation costs which some would argue is a way of funding excess transportation costs faced by rural school districts. By using this funding method, sparsely populated districts do not bear unusual transportation burdens at the expense of instructional programs or their taxpayers.

The advantage of the use of excess costs for measuring district need is that if the state funds all excess costs, the unique fiscal burdens of districts are eliminated. The disadvantages include an inability to accurately measure excess costs in any justifiable way without conducting the sort of analysis completed as part of the Resource Cost Model research, and this is rarely done. Additionally, the use of the excess cost approach can lead to inefficiency since the "burden" of generating revenue to meet the excess costs will be borne elsewhere. Finally, when the state is unable to fully pay the amount of excess costs and proration occurs, the resulting burden on the district may be more a function of state financial circumstances than of the unique needs of the school district and its pupil population.

Resource Cost Model

The Resource Cost Model (RCM) allows program cost differences, resource price differences, sparsity/density cost differences and poverty-related cost differences, each an element of need, to be taken into account in a structured fashion. The RCM is a process that considers the needs of all pupils—regular, as well as those with special needs—and the district itself.

The principal assumption on which the RCM approach is based is that three factors account for most of the variation in the amount local districts spend to educate their pupils. The three factors are cost, quantity, and local community preference. The RCM provides procedures for identifying the differences in revenue needs which result from variances in unit costs and the type and amount of goods and services required for school districts that offer essentially the same educational programs. Local community preference, although a factor in the amount school districts spend for education, is a matter of political choice at the local community level and, thus, was not measured in this research.

The cost factor is being addressed through the Cost of Education Index (CEI). It assumes that school districts may incur different costs for the same services. It is important to note that, for the purposes of this study, cost is not necessarily the same as expenditure. Cost is defined as the minimum amount the district is required to pay for a service or commodity. Expenditure may include both cost and choice, reflecting local choices that have been made which increase the price paid for goods and services. One example of cost differentiation could be as follows. Consider Districts A and B, alike in all ways except that District A is charged more per unit for heating fuel than District B. In order to keep their similar buildings heated to 68° in the winter, District A will face higher costs than District B. If District B chooses to keep its buildings warmer than 68°, its expenditures for energy may be equal to or higher than A's, but by definition, its costs will remain lower than District A's.

The reason for identifying the differences in cost that do not reflect district choice is to account and adjust for them in the distribution of state funds for education. If the previously identified Districts A and B received the same amount of state funds for energy costs (Districts do not currently receive financial aid for energy costs.), either District A would not receive enough to cover costs and would have to use funds from some other source, or District B would receive more than necessary for its energy needs and could use the excess state aid for other purposes. In either case, the same amount of dollars would not purchase the same quantity of energy, and ultimately, the system would not be "fair" to one of the districts.

The process used to develop the CEI includes statistical analyses of vast amounts of data including teacher and district characteristics, crime rates, utility rates, and access to parks and other types of social amenities that will assist in identifying the varying costs of goods and services that districts located throughout the state experience. Differences in costs (not expenditures) in various categories of personnel, energy, and transportation were identified.

The quantity factor of school district expenditures for education is addressed as part of the Program Cost Differentials (PCD) study. A basic premise of the PCD is that different resources are required to address the needs of different mixes of pupils. For example, consider District R and District S which are alike except that District R has very few students with special needs, while approximately half of the pupil population served by District S is composed of students with special needs (special education, limited-English proficient, compensatory education pupils). Even if no other factors were considered, the smaller class sizes required for students with special needs would generate higher personnel costs for District S. Again, if the state provided the same funding per pupil to both districts, the outcome would be similar to that of the previous example—too much or too little state aid for one of the districts. The state currently provides some categorical funds in an attempt to compensate for these differences in local district needs resulting from variations in the composition of school district pupil populations. However, issues of how much more or less is needed and the effect of variations in revenue needs due to cost differences are not currently accounted for as they can be in the RCM.

The RCM process accounts for services provided to all pupils, thus allowing differential resource needs resulting from differential educational services to be recognized. The RCM includes specific measurement of the differences in the prices local districts face for similar quantities and qualities of energy, personnel, and transportation. Higher costs of sparsely populated districts can be identified and compensated for proportionately with other districts or at a lower or higher level.

It was the recommendation of the Resource Cost Model Committee, a 16-member body composed of educators and legislative and executive staff members, that the resources generated by the Resource Cost Model specifications be distributed through one equalizing formula. The effect of this method would be similar to calculating [illegible] distribution of funds separately for the various program categories using the same funding formula. However, if each program category were to be funded under a different distribution mechanism, the Resource Cost Model approach could still be used as a basis for determining the needed resources.

The most difficult area for the RCM to address is the issue of funding for districts heavily impacted with poverty. The cause for the difficulty is the absence of information on the extra costs associated with high concentrations of poverty. School districts heavily impacted with poverty must uniquely contend with at least two educational and social problems. The first problem is one of greater numbers of students with low educational achievement among the poor. This problem is addressed to some degree within the RCM by the specification of remedial classes at both the elementary and secondary level. If there is a high incidence of low achievement in a school district and the district is providing additional instruction to these pupils in the form of small remedial classes, the state would help fund these classes as part of the unique needs of the school district specified in the RCM.

The second problem appears to be less related to pupil need than to the effect of the concentration of poverty on the district itself. High levels of vandalism, greater need for nursing services, more frequent nonpayment of fees, and other similar problems appear to put a greater financial burden on school districts with high concentrations of poverty. The question which has been answered with respect to other costs, but which remained unresolved by the RCM Committee with respect to this aspect of poverty impact is HOW MUCH MORE DOES IT COST?

The RCM has numerous advantages. The RCM is comprehensive and allows both student and district-related needs to be assessed. Because it is based on services provided, it provides accountability for legislators, local citizens and those with special interests. Program cost differences, resource price differences, sparsity/density cost considerations and at least one aspect of poverty impaction can be integrated into the model.

A disadvantage of this approach is that it has never been implemented on a full scale. Another possible disadvantage is that the model appears complex. Perhaps this perception is based upon the fact that the RCM process is new, and, like most new concepts or procedures, requires some time for familiarization to occur.

Pupil Counts/Enrollment or Attendance

A subcomponent of the need issue involves the basic mechanism for counting pupils who receive services. The alternatives are counting pupils in attendance or pupils in enrollment or some combination of the two measures. Concerns have been raised by members of the Technical Advisory Panel about the impact on attendance policies if state funding were not used as an incentive to have students attend school. Advocates of an enrollment count suggest that separate programs could be established to address the truancy problem.

Other questions that have been raised by TAP members relate to the planning procedures districts use in determining instructional staff and related support needs. Is school district planning for staff needs based on expected enrollment or attendance? An informal survey of a few school district administrators revealed that districts use projected enrollments to plan staff needs. Reasons given by these district administrators for the use of enrollment rather than attendance included:

1. Attendance cannot be predicted very accurately except on an aggregate basis at the district level. Thus, since there is no feasible way to know which students in which classes in which schools will be absent on specific days, planning on the basis of these absences is unwise.

2. Class-size provisions in teacher contracts are generally based on enrollment.

A final concern expressed by the TAP relating to the use of enrollment versus attendance was that a shift from attendance to enrollment would lead to a shift in the distribution of resources to the large city districts and to high school districts. Table 1 suggests that it is unlikely that this shift would occur because the distribution of enrollment is similar to the distribution of TWADA, the attendance count which is currently used. In fact, in the absence of information about the way in which the enrollment information would be used, Table 1 shows that unless compensation for educational program cost variations experienced by big city districts and high school districts occurs, a shift of resources away from these districts would result. This would result because the RCM method of counting pupils (enrollment) does not include the currently used method of assigning extra weight for high school students and poverty students (differentiated by levels of poverty concentration).

If the enrollment data are applied to instructional program specifications to generate cost information, specifications which account for the higher costs for high school programs, the unique educational needs of large urban school districts, and other types of variations, it would not be likely that the use of enrollment as the method of counting pupils would shift substantial resources away from high school districts or big city districts, certainly not in the aggregate. Attendance data were not available in a form that could be used to run RCM simulations, and no meaningful alternative for approximating the effect of distributing aid by using attendance data in the RCM could be identified.

Pupil Counts/Frequency of Count

An additional issue relating to counting pupils is the frequency with which the count must be made. Currently, pupils are counted on a daily basis and the averages for the best three months are averaged for use in the general state aid distribution formula. Daily accounting of enrollment or attendance by each program category for use in a funding system that relates services to pupils and the funding received could and probably would become an unnecessary burden to teachers and administrators. Regardless of whether enrollment or attendance is used, the administrative burden could be reduced by using a pupil count which is taken less frequently. Again, the move away from a *daily* attendance count could affect attendance patterns, but it would not preclude addressing the problems through other administrative procedures.

Pupil Counts/Enrollment Change and Cost Change

An additional issue related to the fiscal need of districts and the counting of pupils is the impact of declining enrollments on local district revenues and expenditures. For many years school administrators have recognized that expenditures could not be reduced as quickly as revenues were lost as a result of declining enrollment and the use of a pupil-based formula for distributing general state aid. The formula basically ignored the fact that until enough pupils are lost in a given grade to reduce the teaching staff, costs could not be reduced significantly. Illinois and other states have addressed this problem in a very practical way by calculating state aid using an average of pupils over a two- or three-year time span. This procedure lessens the loss of local district revenues although it does not really address the relationship between changing enrollments and changing costs.

Incorporated into the Resource Cost Model as a basic component is an alternative for addressing the issue of the relationship between enrollment change and costs. This component provides that instructional units, not individual pupils, are the basis for funding, and thus will determine when additional funds are gained or lost. The effect of this alternative is that funds will not be gained or lost with the gain or loss of each pupil. Rather, until enrollment change equals that of an instructional unit, no funding change will occur. However, whenever this funding change takes place, it will be for a large amount equal to the staff and associated costs for that unit. Presumably, if the district enrollment has changed to this extent and in this way, the school district would have appropriately reduced or added classes and staff. While this approach will be seen to have great merit by school administrators in a time of declining enrollment, the rationale should be just as appropriate for times of enrollment growth.

Municipal overburden is a potential factor of local school district need which was examined as part of the Public School Finance Project. No determination could be made as to its existence in Illinois. Municipal overburden has been traditionally defined as the phenomenon city school districts experience because their communities must provide larger proportions and amounts of noneducational services to their communities than that required of rural or suburban communities. Proponents of the overburden concept claim that as a result of these additional public service costs, larger proportions of their total tax rates are allocated to noneducational services. Municipal overburden could not be measured in Illinois due to the lack of complete school district-level information. If a municipal overburden factor does exist in Illinois, it may be addressed through the RCM.

Local School District Fiscal Capacity

A second component of an equalizing formula that must be determined is the measure of local school district fiscal capacity, that is, the ability of the local community to pay for its own educational programs. If all other factors are equal, an equalizing formula will provide to wealthier communities relatively less in state resources to fund educational programs than will be provided to communities with less ability to pay. Thus, the more fiscal capacity a local community has, the less the state should contribute.

Several alternatives exist with respect to a measure of local school district fiscal capacity. The primary measures include property value, income, tax base composition and combinations of these factors. Illinois has used equalized assessed valuation as its measure of local wealth since the beginning of the use of local wealth as a part of the equalizing mechanism. In part because of the weaknesses in the property assessment system as well as research that indicates that income adds a dimension to measuring local ability to support education that property wealth alone does not capture, there have been examinations of the use of income in the measure of local fiscal capacity for use in Illinois' equalizing mechanism for a number of years.[3] In each instance, the research has suggested that the use of income in a distribution mechanism could improve the equity of the school finance system.

The unavailability of annual income data by school district has been a major obstacle to the inclusion of an income factor in the state aid formula. However, it could be argued that the historically strong correlation between Census income data over time would suggest that Census data are an acceptable short-term substitute for annual data. If an income factor based on the current Census data were adopted, efforts to begin sorting income data from the Illinois state income tax forms into school districts could begin immediately and be reasonably accurate by the time 1984 taxes, payable in 1985, are processed.

If income is utilized as a part of a measure of local ability to pay, the nature of the relationship between property value and income must be decided. There are alternatives in this decision also because the two components can be added or they can be multiplied. Research conducted by Hou, Adams and Odden suggest that the multiplicative relationship is more appropriate.[4] Property value can then be said to be weighted by an income factor.

Income adjusted EAV tends to improve the equity of state aid distributions by reducing the relationship between local wealth and local expenditures. That is, by using an EAV adjusted by income in a state aid distribution mechanism, local expenditures would be less dependent on local wealth. It would also tend to result in some redistribution of state funds from high school districts to unit districts and from suburban districts to central and independent cities and rural districts. This distribution component would have little effect on the relative amounts of state aid elementary districts as a group would receive.

The percentage of residential property in a local community is a factor that can be used in the measurement of local school district fiscal capacity. The rationale for this approach is that the composition of the property tax base affects local expenditures. This is true because taxpayers in a predominantly industrial community can get more benefit from a given tax rate than a predominantly residential community since the industry, which will pay a large portion of the taxes, can probably export some of the tax burden out of the community by adding it to the price of the goods or services produced. Due to incomplete tax base composition data at the current time, analysis could not be conducted that could lead to recommendations regarding the use of this factor as a component of the measure of fiscal capacity. As this type of information becomes available, research can be conducted that more completely examines the effect of tax base composition on school funding.

Several alternatives exist that could be used to compare local school district fiscal capacity among school districts. Property value for each district can be divided by the number of pupils in attendance or enrolled, the number of pupils in either category with some attached weighting factor, the school age population, the total district population or some instructional unit measure. In general, the use of enrollment or a population measure, whether school age or entire district population would shift state funds from growing districts to districts, frequently large cities, with a smaller percentage of the total district population in public schools. Income can be standardized for all districts on the basis of district population or in terms of school district median family income levels.

Table 2 shows the effects enrollment, attendance and population data would have on the wealth ranking of state funds for certain selected districts. Although the argument for the use of a per capita standardization factor has merit, that is, that it recognizes all public services a community must provide and thus may be a more accurate reflection of the community's ability to pay for educational services, the combination of its strong redistributional effects, particularly when combined with an enrollment-based measure of need, and the apparent unavailability of population data more frequently than every five to ten years, suggests that its benefits may be outweighed by its limitations.

An additional way to improve the measure of local ability to pay for educational services is to improve the property assessment system in Illinois. As a result of nonuniform property assessment practices, even equalized assessed valuation is an inadequate measure of local school district fiscal capacity. Even if an income factor were included to account for other aspects of local fiscal capacity, the weaknesses in the property assessment system would continue to limit the accuracy of using property value as a fair measure of local wealth or fiscal capacity.

Local School District Tax Effort

A final major component of an equalizing formula is a measure of local tax effort. Some types of formulas, such as a guaranteed tax base formula, serve as incentives for local tax effort by providing that local tax rates are used as major determinants of both state and local funds. A foundation formula, however, requires some minimum amount of local tax effort, but does not make state funds dependent on further increases. Additionally, a formula can, as does the current Illinois formula, use a local tax rate to generate state funds with no requirement that the local school district tax at that rate. Thus, one question to be answered is, "What function is local tax effort to serve—maintenance of local fiscal involvement in the educational program or incentive for increased state funding for education or neither?"

The problems associated with the "reward for effort" type formula are well known to Illinois educators as a result of the 1973 passage and implementation of the Resource Equalizer formula, a "reward for effort" formula. The high correlation of tax rates with income levels, the massive problems associated with the property assessment system in this state, and the fact that this type of distribution method serves as an incentive to property tax rate *increases* are three of the main reasons why a "reward for effort" formula may be less desirable now than in the 1970's when the philosophy of reward for effort seemed more appropriate.

If local tax effort is not to serve as an incentive for increased funding from the state, should local tax effort be required to guarantee some minimum local support for education? One of the State Board's General State Aid Principles states that districts should be required to maintain some minimum local tax burden. One of the concepts supportive of this principle is that it is important that local communities demonstrate their willingness to support public education for their student population. Additionally, if guaranteeing appropriate levels of funding for adequate educational services is of interest, then commitment from both state and local funding sources must be required. A corollary to requiring some minimum local tax effort is the provision by the state of the permissive (nonreferendum) taxing authority to make this effort.

A major problem was created in 1973 when the Resource Equalizer legislation was passed because the proposed changes in the effort component of the formula were adopted while the suggested changes in permissive (nonreferendum) taxing authority were not.

Although the following discussion comprehensively examines permissive taxing authority, the relationships established in this process also apply to tax rate requirements. As discussed in "A Reasoned Basis for Taxing Authority," a Public School Finance Project study, permissive (nonreferendum) taxing authority in Illinois is not uniform in effect among the district types. As a result, high school districts are permitted by law to use, without referendum, a greater percentage of their local tax base, relative to their fiscal need based on the proportion of students served and the costs of providing these services, than are unit districts and elementary districts. This inequity could be eliminated by adjusting and equalizing the level of permissive taxing authority between unit districts and the combination of elementary and high school districts and adjusting the taxing authority between elementary and high school districts to provide access to the shared tax base on the basis of the relative fiscal needs in the aggregate of the respective district types.

Thus, the relative costs of providing educational services to elementary and high school students within unit districts has been calculated by researchers for this study and applied to the relationship between elementary and high school district fiscal need. Data from the RCM indicate that the combined effects of the proportion of students served and the costs of these services in the categories of regular elementary, regular secondary, and vocational education which account for the major cost differences among the grade levels served by elementary and high school districts result in elementary district fiscal need in the aggregate exceeding by .63 that of high school districts in the aggregate. Providing elementary school districts with this additional permissive taxing authority would treat each district type equitably in a dual district setting. If the combined permissive rates for an elementary district and a high school district were equal to that of a unit district, taxpayers and students in each of the school district types would be treated equitably. It should be noted that with refinement of the RCM enrollment data, it is likely that the value of the fiscal need relationship will change somewhat although no major deviation is expected. Additionally, reconsideration of these relationships on a periodic basis as pupil population shifts occur would be facilitated by the availability of RCM data on an annual basis.

Reexamination of the relationships among the various district types based on the costs of providing services and the proportions of students in the elementary versus secondary programs suggests that the relationships established among the formula tax rates in 1973 remain relatively accurate 10 years later. The relative tax rate requirements at that time were: elementary district rates were 1.85 times those for high school districts, and unit district rate requirements equalled the sum of elementary and high school rate requirements.

An additional facet to this discussion of local tax effort is the issue of tax burden. While taxpayer equity is not the sole nor perhaps even the primary concern of a school finance system, it should not be overlooked either. Just as a child should not receive "better" or "worse" educational services simply because he or she lives in one community rather than another, it could be argued that in order to support the same services a taxpayer in one part of the state should not have to bear a heavier burden than that imposed on other taxpayers residing in other parts of the state. Thus, according to this view, the burden on the taxpayer should be the same for the same services even if the tax rates are not the same throughout the state.

2. *What alternatives exist for generating revenue for Illinois public elementary and secondary education and what are the implications of each?*

The discussion that follows is an attempt to show how the RCM-generated cost information could be used by policy makers to identify the revenue needs to support education and is not intended to be a statement of the level of fiscal need as seen by this Panel. That is, given data that reflects accurately the educational services students are receiving (enrollment data) and given consensus on the set of services and their individual specifications that are appropriate for reimbursement by the State, the RCM can identify for each school district and for the state as a whole, the costs of providing the specified set of services.

The total statewide predicted costs could be referred to as the total revenue needs for elementary and secondary education in Illinois. The information which immediately follows is an analysis of the comparison of district by district expenditures for Fiscal Year 1982 with the RCM predicted costs for the same year with the differences aggregated to the state level. More precise enrollment data and a different set of program specifications would have yielded a different statewide total. Additionally this discussion does *not* reflect the distribution of state and federal funds based on the RCM-predicted costs. That information and discussion can be found in Preliminary Simulation Results on page 28.

Based on data used in and generated by the Resource Cost Model for school year 1981-82, it would have cost local school districts approximately $5.3 billion to provide the services *currently specified in the model* as being appropriate for funding by the state in light of current educational technology, available funding, and consistency with preliminary determination of program quality. When the average cost per student for providing these services is compared with the expenditures per pupil on the same categories of services in districts for that year, a short-fall of approximately $1 billion is observed. That is, although $5.2 billion was spent in the aggregate on comparable categories of services in Illinois that year, the amount being spent in many districts was less than the services specified in the RCM would generate, which would have required another $1 billion to bring the state as a whole up to the costs of the level of services appropriate for state funding.

Conversely, that means that the rest of the districts in the state were spending approximately a billion dollars more than the cost of the services specified in the RCM. If it were to be argued that all districts should be able to provide the level of services identified as appropriate for state funding without requiring reduction in expenditures for those districts which are providing higher quantities of services or at least are spending at levels above the predicted costs of providing these services, it would have been necessary to increase state and/or local funds by approximately $1 billion in 1981-82.

Initial analysis indicates that the $1 billion estimated additional cost of funding education is probably a high estimate. Adjustments to the specifications and other data refinements in process will reduce the total cost predicted by the RCM.

There are alternatives to increasing revenues to provide funding for the appropriate level of educational services specified through the Resource Cost Model. One alternative would be to increase the funding level in districts that are providing educational services below the levels of educational services appropriate for state funding by utilizing the excess state and local funds available to districts that are spending above the amount needed to provide the specified educational services. This alternative would result in approximately $1 billion being redistributed to school districts throughout the state. The primary advantage of this alternative is that it does not require new revenue to bring about the implementation of an appropriate funding level in each school district.

Additionally, it could be argued that it addresses the issue of student equity, by reducing opportunities for students in some school districts to receive funding for services beyond those specified as appropriate for funding by the state. The disadvantages of this alternative include the apparent rejection of any notion of local control by removing the option for many districts of providing more services than those deemed appropriate for state funding. This alternative would, in all likelihood, be strongly rejected by state policy makers.

Another alternative that would provide funds necessary to support appropriate educational programs throughout the state would combine some redistribution of state and federal revenues with some increase in state funds for education. The redistribution that would occur would result from the implementation of a distribution mechanism that addresses the inequities in the distribution of state and federal funds and would therefore reduce the level of state and federal aid provided to those districts that have greater ability to pay for their own educational programs. While this redistribution would probably not shift large amounts of funds among districts, it would reduce the amount of revenue needed to be generated from increased taxation.

Certainly, any reduction in state funds to local school districts (even wealthy ones, however wealth is defined) at this time is a problem due to the fiscal constraints many school districts face. This concern could be addressed and partially alleviated by phasing out any reduction in state funds over a two or three-year period to ease the changes school districts might be required to make through increased local taxation or reconsideration of educational programs in these districts.

Revenue Generating Alternatives

There are at least six alternatives for generating revenue for Illinois public education. They include:

- Generation of funds at current levels from current sources in current relative proportions; (See "A" in this section.)
- Generation of current levels of resources from a different mix of current tax sources; (See "B" in this section.)
- Generation of increased levels of funds from current sources and in the same relative proportions; (See "C" in this section.)
- Generation of increased revenues from current tax sources, but with a shift of the proportion of funds from these sources; (See "D" in this section.)
- Generation of funds at current levels from current sources in the current relative proportions, but with a modification within each source to improve equity; (See "E" in this section.)
- Generation of revenues at any level from new sources. (See "F" in this section.)

A. CURRENT REVENUE LEVEL, SOURCES, AND RELATIVE PROPORTION OF USE OF SOURCES

One alternative is to continue to generate funds at current levels and in the same relative proportions from each of the current revenue sources. This option would maintain the current inequities experienced by taxpayers and local education agencies and would not address inadequacies of funding of public education.

B. CURRENT REVENUE LEVEL AND SOURCES: CHANGE IN PROPORTION OF USE OF SOURCES

This alternative would provide for a change in the mix of tax sources with little or no increase in revenues. This is essentially the plan recommended by the Governor's Tax Reform Commission. The Commission has recommended tax structure changes that are designed to provide a more equitable burden on taxpayers without increasing the net resources available to taxing units. While implementation of such policy would not necessarily reduce revenues for school districts, it is unlikely that this alternative would improve the quality of educational services either.

C. INCREASED REVENUE LEVEL: CURRENT SOURCES AND PROPORTION OF USE OF SOURCES

A third alternative would provide for more aggregate revenue from the same sources currently in use and would not change the relative proportions of funds generated from each source. This alternative might be helpful to some school districts with high assessed values per pupil. For example, if the property tax were increased in some manner, those districts with high assessed values per pupil would generate more local tax revenue and consequently more total revenue than other school districts. This alternative would suggest some increase in one or more tax sources. While this would provide more money, it would not improve the equity of the school finance system for either taxpayers or school children.

D. INCREASE IN REVENUE LEVEL: CURRENT SOURCES—CHANGE IN PROPORTION OF USE OF SOURCES

This objective could be accomplished by reducing the property tax revenue for education and increasing a state tax source (most likely the income tax) enough to more than recoup the reduction in the property tax, or by increasing property tax revenues somewhat with a larger increase in a state tax source, or by increasing the state tax source with no change in the property tax.

If either of the first two options were pursued, the mechanism for implementing such changes should be considered in the context of other goals to be attained by a comprehensive public school finance system. By altering the permissive (nonreferendum) taxing authority granted to the various district types, the revenues for education from the property tax could be either reduced or increased and simultaneously taxpayer and student equity could be promoted. (Other mechanisms were discussed in "A Reasoned Basis for Taxing Authority" and the Governor's Tax Reform Commission report.)

For example, if the tax rates generated by the proportional relationships previously discussed were applied to 1980 EAV's and operating tax rate permissive taxing authority for unit districts were reduced to 2.18 percent from 2.195 percent, elementary district permissive taxing authority were reduced to 1.35 percent from the current 1.39 percent, and high school district taxing authority were reduced to .83 percent from 1.39 percent, approximately $170.9 million would be reduced from the local property tax from the following district types:

$ 10.8 million	elementary districts
$154.3 million	high school districts
$ 5.8 million	unit districts

(See Table 3 for detail.)

It has been pointed out by TAP members that this option is a roll back of property tax rates for unit and high school districts, but it is not a limitation on tax rates. This rollback would be based on the underlying permissive (nonreferendum) taxing authority and thus would affect tax rates even for districts which have additional voted taxing authority.

If, however, these relationships were applied to 1980 EAV's so that no districts experienced a decrease in property taxes, the operating tax rate permissive rate for unit districts would be increased to 3.65 percent, the elementary rate would be increased to 2.26 percent, and the rate for high school districts would not change. (See Table 3 for detail.) The potential increase in property taxes would be:

$ 85.5 million	elementary districts
$296.5 million	unit districts
$382.0 million	total

Reasons for rejecting both approaches exist. Proponents of decreasing the permissive taxing authority for high school districts argue that this option, unlike an increase in this taxing authority, would not require taxpayers to pay increased property taxes at the same time an increase in state taxes is anticipated. Additionally, it would not result in an increase in the use of a tax that many believe is regressive and thus should not be encouraged.

Proponents of an increase in permissive taxing authority point out that it is unlikely that the state would provide funds sufficient to compensate for the reduction in local tax revenue in the short run. More generally, it is agreed that the local tax base is the only dependable source of revenue despite its limitations and liabilities. This argument is made by districts with either high or low property value per pupil.

Income and Property Taxes

Assuming current levels of total income, if the state income tax were to be increased from 2.5 percent on individuals to 3.5 percent and on corporations from 4.0 percent to 5.0 percent, approximately $1 billion would be generated.

The amount of revenue derived from the income tax fluctuates with each sustained upward or downward movement in the state's economy. For this reason, although there has been increasing support in recent years for reducing or eliminating the property tax, it would not be prudent to totally replace the property tax with the income tax. However, reducing the proportionate reliance on the property tax could be advantageous because it is a tax which is less related to the taxpayers' ability to pay the tax than other types of tax, such as the income tax.

Additionally, it is important to note that any practical proposal for revenue generation will probably include the property tax as a major source of revenue for education. The arguments for its stability, its linkages with the concept of local control, and its long history as a source of revenue for education will prevent its complete replacement, certainly in the near future. As a result of its likely continued use, the problems associated with its use as a source of revenue for school finance should be addressed.

The problems of nonuniform property assessment practices found throughout the state must be resolved. As a result of these nonuniform assessment practices, property taxpayers in the state do not generate equal amounts of revenue for their local schools for the same amount of tax effort. Uniformity in assessment practices would increase the equity of local revenue generation and simultaneously the equity of the entire school finance system.

E. CURRENT REVENUE LEVELS: MODIFIED CURRENT SOURCES—CURRENT PROPORTION OF USE OF SOURCES

Another revenue generating alternative is to use a revenue source which is already in existence, but to alter it to provide more equity for taxpayers and students. For example, the real property tax levied against electric utilities for the production, transmission or delivery of electricity could be adapted for this purpose. Currently, the local school district in which such an electric utility is located receives all the benefits of the extremely high assessed valuation per pupil resulting from the location of the utility. There are approximately 20 school districts in this state that have within their boundaries a major utility plant. Thirty-three percent or more of the tax base of each of these districts is derived from the utility within its boundaries. These utilities disproportionately increase a school district's local ability to pay for the education of its student population. As a result, taxpayers within these districts are taxed at substantially lower tax rates than taxpayers located throughout most of the state, and, additionally, the districts with these utilities have much higher expenditures per pupil than districts without such a property.

Table 4 indicates the equalized assessed value, percentage of the total, operating tax rates and operating expenditures per pupil for those districts that have utilities which compose substantial amounts of their local tax base. Table 5 indicates the median tax rates, equalized assessed values per pupil and the average expenditures per pupil for the state as a whole and for the districts with these utilities on their tax rolls. State-level assessment of these properties and reallocation of this assessment to school districts and units of local government would lead to a substantial reduction in the range of expenditures per pupil.

Under the provisions of one option considered, if a statewide tax rate of approximately 1.54 percent were applied to these utilities instead of the varied rates which are currently applied locally, approximately $39 million (the same amount currently generated) would be available to redistribute to all school districts. A similar effect could be attained with potentially fewer obstacles to implementation and maintenance by allocating to the district in which the utility is located a specified (uniform on a per pupil basis) portion of the state assessed real property used for the production, transmission or delivery of electricity to be taxed by each school district at the same rate as other property in the district. The assessment in excess of the portion returned to these districts in which the utilities are based could be allocated to other school districts and units of local government. The simulations developed for this report reflect redistribution of utility-assessment-derived funds based entirely on the operation of the state aid formula after removal of all utility EAV. Based in part on review of these data, the Technical Advisory Panel decided to recommend the allocation of a portion of state-assessed utility real property assessed valuation used for the production, transmission, or delivery of electricity to the districts in which utilities are located.

Another existing revenue source examined during the course of the Public School Finance Project was the Corporate Personal Property Replacement Revenue (CPPRR). The CPPRR is not a source that school finance experts consider likely to provide increased funds for education. Actually, it appears that revenues from this source will remain stable or will increase only slightly in the next few years. Although the CPPRR may generate reduced revenue in the future, there may be methods for restructuring its distribution that could help improve equity for taxpayers and students. Currently, the distribution of these revenues to all counties except Cook is based on the corporate personal property tax collections of each taxing district in 1977, while Cook County receives its CPPRR based on the county's 1976 corporate personal property tax collections.

Tax collections in 1976 or 1977 are not necessarily related to current or future population characteristics or expenditure needs. Replacement revenues based on past personal property collections ensure that a local district will continue to receive the same percentage of the replacement funds regardless of changes in the ability of the community to generate local revenue, changes in the burdens placed on local communities by the addition of major commercial or industrial property moving into the community, or changes in resource needs of the school district due to changing student populations.

Similar problems arise as demographic characteristics and student service responsibilities change. For example, school districts in areas of rapid enrollment increases will receive the same percentage of the replacement revenues regardless of enrollment increases. However, a school district in a declining area will receive the same portion of the replacement funds despite the loss of students and decreasing expenditure needs.

The present CPPRR system also hampers local school districts seeking to draw from local revenue sources. For example, a local district experiencing rapid business expansion and rapid increases in personal property could not generate tax revenue from this personal property. Therefore, this personal property increase would not create a proportionate increase in revenue for the district. The same is true for local governments increasing property tax rates. Under the former system in which corporate personal property was assessed and taxed, increases in assessments or tax rates would have produced significantly higher collections than are possible under the current replacement package. Conversely, if there were a redistribution of this revenue based on real property value, then the CPPRR that would have been distributed to communities that have recently lost large portions of their commercial and industrial tax base would be distributed to communities experiencing growth in this portion of the tax base. These growth communities are already reaping increased real property tax revenue.

It would be possible to calculate a new formula for the distribution of school districts' share of CPPRR, even if the old CPPRR distribution scheme were maintained for other taxing bodies. The current distribution of local school districts' share of the CPPRR could be phased out and a distribution based on the components of the state aid equalization formula phased in. The effect of this change would be to redistribute approximately 25 percent ($70 million in 1981) of the CPPRR for school districts.

The CPPRR would be distributed statewide primarily from 59 districts with 25 percent or more of their tax base formerly in corporate personal property and which have median operating tax rates in 1980 of 1.566 percent for elementary districts, 1.3493 percent for high school districts and 2.3913 percent for unit districts and median expenditures per pupil in 1981-82 of $2,196 for elementary districts, $2,480 for high school districts and $2,429 for unit districts. Comparable state medians for all districts were 1.914 percent for elementary districts, 1.612 percent for high school districts and 2.761 percent for unit districts, and $2,137 for elementary districts, $3,073 for high school districts, and $2,196 for unit districts.

In both instances discussed here, the amount of aggregate funds subject to redistribution is relatively small in proportion to the total state education budget. However, the impact of the revenue reduction on the districts currently receiving the benefit of these policies could be great. There would have to be either substantial increases in local tax rates or some reduction in services offered students in the affected districts or both. If there were sufficient revenue for all districts to have available to them revenue adequate to meet the educational needs of their students, the argument could be made that the very low tax rates and very high levels of expenditures for the students in these districts are acceptable. However, if, as a result of state policy, these benefits are occurring at the expense of other students and taxpayers throughout the state, consideration of alternative state policy is appropriate.

These changes, which could be effected without cost to the state and would affect a relatively small number of students and districts, would contribute substantially to the overall equity of the Illinois system for financing elementary and secondary education. However, opponents of this proposal contend that the minimal numbers of students and districts affected are not significant enough to tamper with the *status quo*.

F. UNDETERMINED REVENUE LEVELS: NEW SOURCES

Another revenue-generating alternative would be to identify a new revenue source. This alternative was not given serious consideration during this synthesis process, at least in part because the primary potential new source, the local option income tax, has been reviewed extensively in recent years and months by legislators, taxpayer organizations, and others and has been found to have many disadvantages. The Public School Finance Project's report, "Revenue for Illinois Educational Needs," identified the following problems associated with the local option income tax.

First, a shift from local property taxes to a local option income tax would have little effect on the local districts themselves, aside from a possible change in the identity of taxpayers who attempt to exert pressure on the school boards—from property owners to income earners. More importantly, the local option income tax does not increase the state's funding commitment to elementary-secondary education.

Given the inherent unpopularity of imposing a tax only on certain taxpayers, a local income tax should be based on the annual income of all taxpayers (individuals, corporations, partnerships, trusts and estates) holding legal residence in the taxing district. However, it would be very difficult to apportion the amount of income earned by a highly diversified corporate taxpayer within a specified local taxing district. For example, Sears, Roebuck and Company operates retail outlets and makes catalogue sales throughout Illinois. State income taxes are based on Sears' aggregate income apportioned to Illinois. Therefore, the exact location within Illinois where Sears' earns its income is irrelevant under current income taxing procedures. Yet under the provisions of a school district income tax, each of the 1,000 school districts would have to be able to verify the net amount and location of such corporate income which could present insurmountable obstacles to the inclusion of corporations under a local income tax.

Identifying the ultimate recipient of proceeds from a trust or estate would also be a complex process. Therefore, a local income tax on partnerships and individuals on a local basis presents additional problems. A major policy decision would involve whether a commuting worker should pay tax based on where he resides or where his income is earned. If place of residence is used, it would be necessary to fix an annual date (*e.g.* January 1) on which a person's residence for local tax purposes could be established. This would prevent taxpayer mobility from interfering with assessment of tax liability.

If only certain classes of taxpayers, e.g. individuals, not corporations, are included under a local income tax, a major difficulty in maintaining the relative tax burden of all taxpayers could arise. To adjust for shifts in the local tax burden, some form of tax credit, abatement or refund might have to be devised to provide equity among all classes of taxpayers since businesses and corporations pay more property tax than income taxes.

A local income tax produces less stable revenues than a statewide income tax. A recession or economic change that would result in the closing of a local industry could leave the school district with a severe shortage of revenue. Such instability makes the budgetary process and the issuance of bonds much more difficult for school districts.

Another disadvantage of the local income tax is the duplication of administrative services and high administrative costs. State collection and administration of a local income tax could significantly reduce the cost of collection, but to do this, taxpayers would need to identify their applicable local taxing jurisdiction on their state income tax forms.

The upgrading of the Illinois Department of Revenue's tax reporting systems to permit the collection and administration of local income tax information and related start-up costs has been estimated to cost $2.5 million. If a system for reporting and monitoring the payment of local income taxes were to be established, the Department would continue to have the routine administrative cost of processing each additional local tax payment.

The administrative cost of collecting local income taxes could be funded either by increasing the Department's annual budget or by retaining a portion of the tax proceeds to cover costs incurred. Administrative costs would largely be a function of the number of local taxing districts which would choose to levy a local income tax. In addition, the local option income tax would cause continuous administrative problems due to the multiple and constantly changing tax rates.

"Revenue for Illinois Educational Needs" also discussed the use of foundations as a new revenue source. Foundations are usually not-for-profit groups and operate separately from the benefiting school district. The foundation may have several target areas for which the contributor could specify that his/her donation be used, such as, library, gifted programs, etc. Foundations have boards of directors and elected officers. A foundation sets a goal for the total amount of money to be collected and then solicits community sources through mailings sent to parents of children in school and to businesses in the school district. Some foundations also seek to obtain additional funds through special fund-raiser projects. Foundations keep contributions invested and make donations from their total funds to the school district. Contributions made to the foundations are generally tax-deductible gifts for the contributor.

Realistically, only a very limited amount of revenue for all school districts can be derived from this source, probably much less than 1% of the education fund's total revenues. In addition, revenue from this source is not stable and the responsibility does not fall equally on all taxpayers. Finally, unless these funds are accounted for in the equalization formula in some way, they can promote inequities in educational resources among school districts.

Both of these new revenue sources are seriously limited in the amount of increased revenue they might generate as well as being unlikely to substantially increase equity to taxpayers or to the school finance system as a whole.

3. *What possibilities exist for improving the efficient use of resources for Illinois public elementary and secondary education and what are the implications of each?*

A major possibility for improving the efficient use of resources for Illinois public elementary and secondary schools would be the removal of the disincentives to reorganization and consolidation. There are fiscal and procedural obstacles which greatly limit the probability that existing school districts will reorganize into unit districts or consolidate into larger districts of any type. As enrollments have declined and both state and local revenues have become more limited, educational services have suffered and communities throughout the state have begun to examine the potential of district reorganization and consolidation as methods of resolving these problems. There is a growing concensus that consideration should be given to revising statutory references that unnecessarily impede the progress of school district reorganization and consolidation. Alternatives for addressing the problem of obstacles to changes in organizational structure include the proportional adjustment of both the permissive taxing authority and the maximum authorized taxing authority in ways consistent with the process as discussed previously in this paper.

The Technical Advisory Panel expressed interest in exploring school district reorganization and consolidation as tools for substantial improvement in the management of limited resources and as a way to improve the educational programs offered in school districts. An alternative to the removal of disincentives to reorganization and consolidation would be the provision of state funds to encourage these changes in organizational structure. Although one of the State Board's school finance principles provides that the state aid formula should be neutral with regard to district organization, this principle suggests that the use of separate fiscal incentives for reorganization are more appropriate than the use of an equalizing mechanism to achieve this goal.

Data from the Resource Cost Model indicate that very small school districts have high per pupil costs. The use of this cost data as a basis for the allocation of state funds could result in the inefficient use of limited state funds, as well as serve as a disincentive to school district reorganization or consolidation. However, by using the RCM cost data in the state aid distribution mechanism in combination with a measurable definition of sparsity that would identify those districts that could reorganize or consolidate only by placing a hardship on their students, these concerns could be addressed. Such a mechanism, which would promote efficiency in state fund allocation, would provide that if a district chose to remain small to accommodate local interests, the local taxpayers could bear the fiscal burden of the diseconomies of scale. This mechanism would also make special provision for school districts that are small due to sparse pupil populations or other factors that would hinder reasonable pupil transportation, e.g. road system limitations, in order to ensure that students in these districts received funding necessary to provide services at the level defined as appropriate in the RCM.

Additional alternatives for addressing the efficient management of local resources include the improvement of the property tax assessment and collection cycle. Delays in the property tax collection and distribution by the county clerk, frequently the result of delays in the assessment process, lead many school districts to engage in short-term borrowing. This practice increases the costs of educational services to the taxpayer in the form of interest with no associated increase in the quality or quantity of these educational services.

Another alternative for efficient management of resources is some reduction of the borrowing authority of Illinois school districts. Short-term debt is both an asset and a liability for school districts. All but the wealthiest of Illinois school districts periodically depend on short-term debt to meet cash shortages. This happens in part because the assessment, collection, and delivery process for local property taxes in Illinois is the slowest in the nation. As a result, the receipt of local tax revenue can be delayed for as long as one year from the levy date. This delay necessitates the use of short-term debt. Without this borrowing power, most districts could experience severe financial problems and some might have to close for periods of time due to a lack of operating funds.

The primary source of short-term debt for school districts is tax anticipation warrants (TAW's) and tax anticipation notes (TAN's). Other types of short-term debt instruments are also available. As the name implies, TAW's and TAN's are collateralized by local property taxes to be received by the district at a future date.

Short-term debt can help a district to meet its cash-flow problems. However, short-term debt should be limited to this use and should not be used to increase expenditures above the current level of revenues. Borrowed money must be repaid at some future date and therefore is not revenue that the district should use to pay for operating costs that exceed the total amount of revenue that the district will have at its disposal during the fiscal year. In cases where the generated revenue is inadequate, expenditure levels should be limited to the amount of revenues the district expects to receive.

Some districts set the expenditure levels first and then if revenues are insufficient, they issue short-term debt instruments to make up the deficit. If reductions are not made in the budget that are equal to the principal and interest due on the short-term loan, the district's operating deficit may be further increased in future periods when repayment of the short-term debt is required. Until districts can have a clearer knowledge of future revenues, this problem may continue to cause difficulty. One method for improving the information base on which local districts make budgetary decisions would be the use of the prior year's equalized assessed valuation as a basis for establishing the amount of taxes to be extended.

Present state law limits the amount of tax anticipation warrants or notes a district can issue to 85 percent of certain local tax levies. The law requires that the district's working cash fund balance be taken into account in this computation. A district can be very heavily indebted by the time this limit is reached. Some districts have even issued warrants and/or notes within one fiscal year in anticipation of receipts from the next two years of property taxes.

Synthesis of School Finance Components

Tax Rates

One of the most difficult obstacles to be overcome in substantially improving access to state, local, and federal funds for local school districts relates to tax rates. The complexity arises from objectives that are not totally compatible with each other and the interaction of these objectives with the organizational structure of local school districts in Illinois. If the objectives include the generation of adequate revenue from all sources, taxpayer equity at least among district types, some minimum local effort as identified in the State Board's school finance principles, removal of disincentives to reorganization and consolidation, and decreases or no change in the proportionate reliance on the property tax to finance schools, determining the appropriate levels of permissive (nonreferendum) taxing authority and maximum authorized taxing authority and tax rates for use in an equalizing formula is a formidable challenge.

Inconsistencies existing in both taxing authority levels and taxing requirements are major contributors to the dilemma. The problems exist for several reasons.

1. Currently high school districts are allowed relatively more permissive taxing authority than all other district types, thus allowing high school districts the opportunity to receive relatively greater amounts of revenue from local sources than are available to unit and elementary districts. The same type of fiscal advantage exists for the combination of elementary and high school districts relative to unit districts.

2. The current taxing requirements in the formula (even though they are used only for calculating general state aid) assume a greater local contribution for elementary districts and unit districts than a relationship proportional to the current high school state aid formula tax rate would indicate.

A number of options exist for achieving an equitable relationship among district types in both permissive taxing authority and taxing requirements. An initial issue that must be resolved is whether it is necessary and appropriate that the required tax rate equal the permissive authority. If it were determined that these two sets of rates should be equal, then the following types of options exist. The Legislature could increase taxing authority/tax requirements for some district types with no decrease in taxing requirements and authority for other district types; reduce taxing authority/tax requirements for some district types with no increase for other district types; or increase authority/requirements for some district types and reduce it for others. A goal, regardless of the option selected, would be to minimize the cost of attaining these equitable relationships.

It should be noted that while the current levels of voted taxing authority would be retained, the reductions in permissive authority as discussed in this section would actually result in across the board reductions in property taxes (assuming the reduction in the permissive rate is to a level less than a district's current taxing level). District taxpayers could also have the option of voting to reestablish tax rates at the pre-reduction levels.

These options could result in OTR permissive authority levels that approximate the following:

Dollars per $100 of EAV

District Type	Current	Increase	Decrease	Mixed Change
Elementary	$1.39	$2.26 (+.87)	$1.35 (-.04)	$1.86 (+.47)
High School	$1.39	$1.39 0	$ .83 (-.56)	$1.14 (-.25)
Unit	$2.195	$3.65 (+1.455)	$2.18 (-.015)	$3.00 (+.805)

The numbers in parentheses indicate the potential tax rate gain or loss against each district's EAV.

If the permissive tax rate limits were revised as indicated above, and it had been determined that the required tax rates were to be equal to the permissive rates, the required rates would approximate:

District Type	Current	Increase	Decrease	Mixed Change
Elementary	$1.90	$2.26 (+.36)	$1.35 (-.55)	$1.86 (-.04)
High School	$1.10	$1.39 (+.29)	$ .83 (-.27)	$1.14 (+.04)
Unit	$2.92	$3.65 (+.73)	$2.18 (-.74)	$3.00 (+.08)

The numbers in parentheses indicate the potential tax rate increase or decrease to be used in calculating state funds and also the potential increase in the amount of local tax effort a district must make to receive state funds.

The net effect of the changes in the limits of both permissive authority and required rates, depending on the actual current tax rate of a local district, would not exceed the following rate gain or loss times the local district assessed valuation:

District Type	Increase	Decrease	Mixed Change
Elementary	$.51 +	$.51 +	$.51 +
High School	$.29 -	$.29 -	$.29 -
Unit	$ .725 +	$.725 +	$.725 +

In these examples, it is important to note the source of revenue gain or loss. Although it can be observed that the very change to proportional permissive tax rates and equivalent tax rate requirements appears to have the same net effect, the source of the gain or loss varies. The extreme examples of this are the net increase in revenues for unit districts of almost $.73 per $100 of equalized assessed valuation which in one instance would allow the local school board to increase tax rates $1.45 per $100 EAV without a referendum and, in fact, require that a $.73 per $100 EAV increase over the current requirement be made. Another extreme example would be the effect on high school districts of a decrease in permissive taxing authority and the required rollback in taxes. In this instance although the state would require a tax rate of $.27 per $100 of EAV less than that currently required (thus increasing state funds), $.56 per $100 of EAV would have to be rolled back, and would result in a loss of local revenue.

In general, in the case of the increase in permissive authority and qualifying rates as described previously, the burden would be increased on the local tax base for both elementary and unit districts. The primary effect for most high school districts would be a reduction in state aid, thus potentially reducing the revenues per pupil beyond the support level used in the formula. In the case of the decrease in permissive authority and qualifying rates, there would be a reduction in the burden on the local property tax and a substantial increase in the state share of funding. The simultaneous increase and decrease in permissive taxing authority depending on district type would both reduce state funding and increase the local tax burden, but both to a lesser degree than either change alone.

If it were determined that it was not necessary for permissive taxing authority and required tax rates to be equal, then the following type of option which minimizes the amount of change necessary becomes possible:

District Type	Permissive Taxing Authority	Required Tax Rates	Net Effect
Elementary	$2.26 (+ .87)	$1.79 (- .11)	.99+
High School	1.39 0	1.10 0	0
Unit	3.65 (+ 1.455)	2.89 (- .03)	1.485+

The numbers in parentheses are the potential increases or decreases in tax rates allowed or required. In this example, there is no change in access to state and local revenues for high school districts and only a slight reduction in the requirements placed upon elementary and unit districts. A substantial increase in permissive authority (access to the local tax base) for elementary and unit districts would allow them an equitable opportunity to support their own educational programs.

Concerns were raised by Panel members regarding the magnitude of these increases for elementary and unit districts and it was suggested that perhaps these increases could be subject to backdoor referenda or could be granted over a period of years, rather than as a one-time potentially high increase in taxes to be paid by the local property taxpayer.

Preliminary Simulation Results

The individual components of the comprehensive school finance system can be utilized in a number of ways to distribute state and federal funds to Illinois public school districts. The information reported in this section is the result of preliminary simulations of the effects of using selected combinations of the component parts in distributing state and federal aid to most educational programs with the primary exception of federal Chapter I and Chapter II programs and the resulting effects on total revenues by school district. It would be premature to make policy decisions on individual formula components on the basis of these simulations alone for reasons that will be identified at the conclusion of this section, but the simulations do provide an indication of the broad implications of the options considered. (See Exhibit B for description of formulas used in simulations.)

The components that were considered included changes in the definition of local school district fiscal need from the combination of (1) the current common foundation level for each school district for general state aid and (2) some measure of reimbursable expenditures for the categorically funded programs to cost information generated by a resource cost model (RCM). For purposes of these simulations, an RCM approach was used to measure local school district need. The costs used in these simulations reflect the RCM program specifications developed in October, 1982 by the RCM Committee.

Additionally, the effect of using equalized assessed valuation modified by indices of median family income by district type as reported in the 1980 Census was examined as an alternative to the use of only equalized assessed valuation, which is the current measure of local school district fiscal capacity. The impact of statewide assessment and taxation of utility property on education revenue was simulated. Finally, the impact of changing the permissive taxing authority and tax rate requirements among district types to promote equity in the generation of local tax revenues and in the distribution of state funds was explored.

No flat grants were included in these simulations nor were any districts held harmless for reductions in funds. The appropriation levels were varied from simulation to simulation because the focus was on providing funding for the set of services identified in the RCM and then identifying the relative revenue needs of the state and local school districts to provide these services under specified conditions. The simulations compare the actual funds available in 1981-82 with the estimated amount of funding that would be generated under the specific criteria of each simulation.

The simulations indicate that if the RCM cost data as described previously which was based in part on student enrollment data for 1980-81 had been used in a single distribution mechanism to distribute funds for educational programs currently funded through a combination of general state aid and categorical grants (no flat grants or alternate funding method) and no other changes to the distribution system were made, the following general observations could be made.

- State revenues would have needed to be increased approximately $1.2 billion.
- The proportion of total state and federal resources would have been decreased for Chicago and increased for all district types, most significantly for elementary and other unit districts.
- Approximately 50 districts would have received fewer funds (approximately $5.7 million) on this basis than they actually received in 1981-82.
- However, the relative changes in total revenues would have been much smaller. This can be illustrated by the fact that although Chicago received in 1981-82 approximately 31 percent of total state and federal education revenues, its total revenues were only about 23 percent of the statewide total of education revenues. This simulation revealed a reduction in the proportion of state and federal revenues for Chicago to 26 percent of the total, but their proportion of the statewide total revenues remained about 23 percent.

If the only change made to the basic set of changes had been an increase in permissive taxing authority and the requirement that districts maintain the following rates as qualifying rates: 2.26 percent for elementary districts, 1.39 percent for high school districts, and 3.65 percent for unit districts, the increase in state and federal funds required would have approximated $694 million with a smaller reduction in the proportion for Chicago and some slight reduction occurring from high school districts.

By increasing tax rates to these levels, the amount of increase in state and federal revenue required to fund the educational costs would have been approximately half the amount that would have been needed if the tax rates had not increased. This would have occurred because a tax rate increase requires local taxpayers to contribute a larger proportion of the RCM-generated costs.

If the only change made to the basic set of changes had been a decrease in permissive taxing authority and the requirement that districts maintain the following rates as qualifying rates: 1.35 percent for elementary districts, .83 percent for high school districts, and 2.18 percent for unit districts, the increase in state and federal funds would have approximated $1.6 billion. The general patterns of changes in the relative proportion of both state and federal funds as well as total revenues which were described above remain about the same with an increase in the proportion for elementary districts and unit districts except Chicago.

If the only change made to the basic set of changes had been the use of EAV weighted by indices based on median family income by district type, the reduction of the proportion of total state and federal revenues for Chicago would have been minimized and the relative proportion for each district type would have remained much the same as described previously in this section. The cost to the state of such a change would have been approximately $1.047 billion more than the actual funding level in 1981-82 as compared to $1.2 billion when unadjusted EAV is used.

If the basic set of changes as described earlier had been combined with the statewide assessment and taxation of public utilities, EAV weighted by median family income, and an increase in the tax rates as specified above, and it was assumed that all districts took advantage of the increased taxing authority, the increase in state and federal funding would have been approximately $639 million with an increase in the proportion of funds for elementary and unit districts and a decrease in the proportion for high school districts and Chicago although the decrease for Chicago would have been smaller than in other simulations. One hundred twelve districts would have received about $48 million less in state and federal funds. As a result of the increases in local revenue which were assumed to have occurred, the increase in total revenues would have been approximately $1.097 billion.

If the same factors had been combined with the decrease in tax rates as specified above, approximately $1.642 billion more would have been required in state and federal funds while a $1.457 billion increase in total revenues would have occurred due to some property tax relief primarily in high school and unit districts. The proportion of state and federal funds for Chicago in this configuration of components would have been slightly lower than in other simulations, but the proportion of total revenues for Chicago would have been approximately the same. The large amount of increased state and federal dollars which would have been generated under these criteria would have more than offset the reduction in property taxes in most instances resulting in only 57 districts experiencing an aggregate reduction in funds of approximately $17 million.

If the basic set of changes as described earlier had been combined with (1) an increase in permissive taxing authority as specified above, (2) the statewide assessment and taxation of public utilities, (3) EAV weighted by median family income, and (4) required local effort of 1.79 percent for elementary districts, 1.10 percent for high school districts, and 2.89 percent for unit districts, and (5) the assumption that all districts took advantage of the increased taxing authority, the increase in state and federal funding would have been approximately $1.065 billion with an increase in the proportion of funds for elementary and unit districts and a decrease in the proportion for high school districts and Chicago. Fifty-six districts would have received approximately $22 million less in state and federal funds.

Based on this information, several generalizations can be made. If the RCM-generated costs accurately estimate the level of funds needed for the provision of an appropriate level of educational services in Illinois, a substantial increase in state and federal funding would have been needed in 1981-82. The precise level of the increase would have depended primarily on the state's relative share of these costs which is determined in large part by the establishment of the required local property tax rates. Based on the tax rate examples that were simulated, the state and local funding relationships appeared to be as follows:

> If the decreased property tax rates (both authority and requirements) had been used to generate total revenue for education, $5.992 billion would have been generated, of which $3.636 billion would have been from state and federal revenues.
>
> If increased property tax rates (both authority and requirements) had been used to generate total revenue for education, $5.632 billion would have been generated, of which $2.634 billion would have been from state and federal revenues.

If increased permissive authority had been combined with required tax rates of 1.79 percent for elementary districts, 1.10 percent for high school districts, and 2.89 percent for unit districts to generate total revenues for education and it had been assumed that all districts took advantage of the permissive authority, $5.730 billion would have been generated, of which $3.060 billion would have been state and federal revenue.

In the first instance, the state and federal share would have approximated 61%. In the second case, the state and federal share would have dropped to approximately 47%. The last example would have yielded a state and federal share of approximately 53%.

Limitations exist regarding the use of the results of these simulations for making specific policy decisions. The limitations will be presented in the following section. Generally these limitations suggest that in some respects the data presented in this report represent the most extreme changes that might occur. Also, refinements in the RCM data and program specifications that are in process suggest that the early estimated costs may be too high and may be slightly biased to the disadvantage of high school districts and Chicago. Thus, the refinements could result in a lower required increase in state and federal funds and less redistribution away from high school districts and Chicago than that suggested in this report. The income index used in these simulations may have overrepresented for the effect of income as a portion of the measure of fiscal capacity and thus caused a greater redistribution of state and federal funds from high income districts than a more refined use of income would produce. There is little reason to doubt that the patterns of redistribution as presented in this section would occur based on implementation of the recommendations of the Panel. However, there is reason to believe that the magnitude of the potential shifts might be overstated here. In any case, the data must be and will be further refined prior to its use in the distribution of state and federal funds.

Issues of Continuing Concern

During the course of their final deliberations, the members of the Technical Advisory Panel acknowledged the process nature of the task of school finance reform. While it was appropriate to bring the initial phase of their work to closure, it was apparent to the Panel that some of the recommendations in the report need refining before they can be translated into public policy and implemented. Issues of continuing concern and the plans for addressing these issues include:

A. Income

While the Panel was able to reach consensus on the appropriateness of using income in a measure of fiscal capacity, there was insufficient information available to allow the Panel to make a recommendation about the measure of income to be used and the way in which it should be used. Questions to be answered include:

1. What specific measure/definition of income should be used, e.g. income per return, median family income, income per student, income per capita?

2. Should income measures be compared by district type or for all districts, e.g. if an index of income were used, should it be one index for each district type or one index for all districts?

3. Should income be used to adjust all EAV or, for example, only that portion of a district's EAV that is residential?

Communication with representatives of the Illinois Department of Revenue continues in efforts to arrange for the collection of income data by school districts as well as efforts to ascertain the proportion of residential property in each school district.

Additional research is being conducted to examine the implications of the use of the alternative measures of income and the alternative ways to utilize it.

B. Program Adequacy

Deliberations regarding program adequacy revealed concern about the ways in which goals, outcomes, and standards might be defined and used. For example, TAP members expressed objections to the potential for requiring reporting and monitoring of the number of minutes in certain subject areas by grade level, as apparently is practiced in the state of Washington. There was consensus on the appropriateness of addressing the issue of program quality, particularly within the context of the philosophical base of the RCM. That is, the RCM is a tool that can identify the cost of any set of services, but as a part of this process of cost identification, questions arise about what "should be" the composition and quality of educational programs offered.

C. RCM

A variety of advisory and technical groups are involved in refining the data used in the RCM. Actual enrollment data for all program categories except special, vocational, and adult education must be collected in order to implement this system. Work is in progress to develop a simple data collection instrument.

The costs generated for special education for the first set of simulations were based on the assumption that students were served in their district of residence. Future simulations will utilize other assumptions about the aggregation of services to the joint agreement level.

Concern about the large number of instructional programs has led to review of these specifications by members of the Superintendent's Advisory Committee on Financing Public Education. This committee is expected to make recommendations about consolidation of some of the instructional programs.

The "richness" of the administrative and support staff components of the model have been questioned. Because this richness is primarily a function of the decentralized approach to identifying these costs, a different, more comprehensive approach to specifying the administrative component is being utilized by a subgroup of members of the RCM Committee.

The initial specifications from which the costs for this report were generated were designed by the RCM Committee so that they would reflect the costs faced by existing Illinois school districts. As observed in the preliminary review of the costs per pupil generated by the RCM, the very smallest districts in the state are also among the very highest cost districts in the state. The higher costs of educational services these districts experience are more likely a result of diseconomies of scale than high cost of education indices.

If the specifications were altered to reflect the costs of providing services in an efficiently sized school district and funds were generated on this basis, then districts that chose to remain very small would have to maintain the cost of the fiscal inefficiencies from their own resources. Compensatory provisions could be made for school districts that are small due to sparseness of pupil population, rather than choice. This concern about using as a basis for funding data that indicate that the very smallest districts in the state have the highest costs led to reconsideration of the minimum size units specified in the model.

As currently specified in the Resource Cost Model, compensatory education may require relatively unique processing procedures. Compensatory Education was specified to reflect services offered as a result of federal Chapter I funding and programs. Only students served in federal Chapter I programs were counted to generate funds for this program category. Consideration was given at various points in the deliberations of the Resource Cost Model Committee to eliminating this program category from the Model. The decision was made to leave the category in the Model because it was believed important that the costs of this program category be determined. The exclusion of this program category from general funding through an equalizing formula based on the RCM was also recommended. This position was taken because both the RCM Committee and the Technical Advisory Panel recommended that all federal programs with restrictive rules and regulations should be considered separately.

If the Compensatory Education program category were to be left in the RCM and the federal government eliminated funding for this category, the State would be obligated to generate the difference in funds because the program category had been included as part of what was determined to be services appropriate for state funding, the philosophical base of the RCM. The consideration of excluding this program category from the RCM should not be interpreted to be a lack of concern by the members of the RCM committee for the needs of students served with federal Chapter I funds. Instead of a lack of concern, there was great interest in finding a way to serve more students that have need for these types of services, but who do not currently qualify under federal rules and regulations or who cannot receive these services due to insufficient federal funding of the programs. It was for these reasons that specifications were incorporated into the regular elementary and regular secondary program categories for remedial instruction to provide funding for districts which operate remedial programs that allow small-group settings for students who need such help, regardless of the economic status of the district, school, or student.

Careful scrutiny by policy makers, school administrators, business officials, and other educators prior to legislative consideration of the RCM is expected to result in a usable process for identifying accurately the costs for each school district of a level of services that have been determined to be appropriate for state funding in light of current technology, available funding, and consistency with preliminary determinations of program quality.

Finally, there was recognition by the TAP that definitive interrelationships exist among the methods of funding (the principal concept examined in this report), school district organization as it relates to efficient uses of resources, and operational agreement as to what constitutes quality education. While it was not the Advisory Panel's task to attempt to define "quality education" or identify the most efficient methods of managing resources, both issues do have pronounced effects upon equitable and appropriate funding of education. Thus, as policy makers examine this report and recommendations on school finance, it is important that consideration be given to resolving these key issues which affect school funding.

VI. Conclusions

The conclusions listed in this section were selected from the previously completed Project studies, which are identified by the titles listed in quotations. All 26 topics were studied; the report titles are listed in Exhibit C. Copies of individual staff reports can be obtained from the State Board of Education. Only those study conclusions that relate to the public school finance system recommendations which are provided in the next section of this report have been included. The Project conclusions are listed in three subject categories: Distribution of State and Federal Funds, Generation of Revenues, and Management of Resources.

Distribution of State and Federal Funds

A. "A REASONED BASIS FOR TAXING AUTHORITY"

High school districts were greatly rewarded by the low operating tax rates required of them relative to their permissive rates in the general state aid formula adopted in 1973. In terms of proportional access to local revenues based on numbers of students and relative costs, they still benefit from the local tax revenues collected.

B. "MUNICIPAL OVERBURDEN"

1. Analysis of currently available data does not indicate the existence of the problem of municipal overburden among central city (i.e. municipal) school districts in Illinois.
2. Timely, accurate and complete income, property and sales tax data organized by public school district are needed to more fully explore the issue of municipal overburden.

C. "INCOME/FISCAL CAPACITY/EFFORT"

On the basis of the analyses of simulated state aid distributions under 11 variations of state aid formulas, the following conclusions can be drawn.

1. If income-weighted EAV were used as the measure of a district's ability to pay in any of the three generic state aid formulas as compared to formulas without an income weighting, unit districts as a group would receive an increase in the relative percentage of state aid distributed to all districts. Using the same comparative measure, the relative percentage of state aid that high school districts as a group would be eligible to receive would be reduced. The impact of the income weighting on elementary districts as a group is not substantial when the Minimum Foundation or GTB formula is used. However, the relative share of state aid for elementary districts would be smaller if income-weighted EAV, rather than EAV with no income weighting, is used in the Percentage Equalizing Formula.

2. Under any of the three generic formulas, income-weighted EAV would result in a substantial decrease in the relative share of state aid allocated to suburban school districts, a substantial increase in the share to central city districts and a moderate increase to independent city and rural districts.

3. On the basis of the coefficients of variation, income-weighted EAV would improve equity in terms of reduction in disparity of revenues for every organizational type of school district under the Percentage Equalizing formula and the GTB formula. Under the Minimum Foundation formula, the findings are not conclusive for unit districts.

4. Using the coefficients of regression as the basis of the analysis, it appears that income-weighted EAV would move the Illinois state aid system closer to fiscal neutrality than unadjusted EAV, regardless of which generic state aid formula is used.

5. In comparison with the income weighted EAV, the income-weighted OTR used in a GTB formula would cause a smaller share of state aid to be allocated to unit districts as a group and a larger share to high school districts as a group. The income-weighted OTR would not result in a substantial change in the relative percentage of state aid allocated to elementary districts as a group. Income-weighted OTR would allocate a smaller share of state aid to central city, but a larger share to suburban districts, in comparison with income-weighted EAV. The GTB formula with an income-weighted OTR would not generate substantial differences in the share of state aid for either independent city districts or rural districts as a group, in comparison with the formula with income-weighted EAV.

6. Under the GTB formula, OTR weighted with an income index would neither improve equity in terms of reduction in variation of state and local revenues, nor achieve more fiscal neutrality than EAV weighted with the same income index.

D. "STANDARDIZATION OF FISCAL CAPACITY MEASURE"

There are several distinct factors that can be used to standardize the fiscal capacity measure, each having distinct distributional effects. Generally, the use of a population factor tends to benefit big cities and districts with large nonpublic enrollments, while pupil-based factors tend to benefit young, growing communities.

E. "PROGRAM ADEQUACY"

1. In the generic sense, program or educational adequacy means that the total educational program of a school system is sufficient to produce the desired outcomes of that system, i.e., the school system is able to achieve its stated goals.

2. The adequacy of educational programs can not be established or assessed until policy makers address the questions of adequacy of "what" and for "whom."

3. Expenditures must be transformed into programs or opportunities before the level of finance can be judged as adequate.

4. The concept of financing adequate education implies a budget that is driven by costing the delivery of adequate educational services.

5. The development of educational mandates and programs in Illinois has occurred in an uncoordinated, inconsistent manner without addressing the question or meaning of program adequacy.

6. It is not possible to define program adequacy for Illinois elementary and secondary schools, based upon the current State Board of Education Goals Statements or mandates.

F. "LOCAL SCHOOL DISTRICT FISCAL NEED"

1. The Resource Cost Model process is the only *comprehensive* approach that is currently available for measuring local district need.

2. At present, the unique district level need associated with poverty impaction can only be limitedly measured.

3. Pupil weights, although simple to understand and apply, do not address (a) the revenue continuity problems associated with significant enrollment changes or (b) unique *district* needs, and (c) are not generally based on program *cost* differences.

4. Excess cost funding for unique needs is effective only if funding is 100%.

G. "EQUITY MEASURES"

While all of the measures and statistical techniques presented in this paper provide some indication of the relative degree of equity within the specified limitations, few provide any explicit indication of why inequity may exist or hint at areas which might be changed to reduce inequity. Of the measures currently available, the multiple regression technique is the most desirable for several reasons.

1. Any number of factors which may result in acceptable variations in revenues, expenditures, resources, tax rates or wealth may be included in the analysis and their effects statistically controlled.

2. The statistics generated by this method, as well as the equations themselves, can give indications of the factors associated with inequities and provide indications of possible remedial policy actions.

H. "ALTERNATIVE MECHANISMS FOR DISTRIBUTING STATE AND FEDERAL FUNDS FOR ILLINOIS ELEMENTARY AND SECONDARY EDUCATION"

1. Concern for student equity is more directly addressed through the use of a foundation formula than either a guaranteed tax base or percentage equalizing formula, but full state assumption of the costs of a standard level of educational services would more fully address student equity than would a foundation formula.

2. The guaranteed tax base and percentage equalizing formulas more directly address taxpayer equity than either the foundation formula or full state assumption. Taxpayer equity tends to be achieved through both the guaranteed tax base and percentage equalizing formulas at the expense of student equity.

3. The component parts of a formula are more important to the degree of equity achieved than the structure of the formula used.

4. The use of flat grants does not further the goal of equity for students or taxpayers.

Generation of Revenues

A. "A REASONED BASIS FOR TAXING AUTHORITY"

1. Statutory nonreferendum tax-rate limits for unit districts are too low in comparison to the combined elementary and high school tax rates and, therefore, are not equitable.

2. Merely providing unit districts with twice the taxing authority of elementary and high school districts is not necessarily equitable among the district types, although it does treat taxpayers residing in either unit or dual district type organizations equitably.

3. Proper tax limits must consider both the proportion of students served by district type and the relative cost of educating these students.

4. Statutory authorized nonreferendum tax-rate limits for high school districts are not proportionally related to elementary districts and, therefore, are not considered to be fair or reasonable.

5. Taxing authority has never been established on a "pupil proportion basis," but recent rate amounts enacted (e.g. special education and fire safety) for unit districts have been double the authority given either elementary or high school districts, thus promoting taxpayer equity.

6. Operating tax rates placed in the general state aid formula in 1973 were generated proportionately by student population, but did not include a weighting for the cost of educating the students in the district.

7. The present tax rates in the statutes are not proportionately related to other pertinent factors. Most were implemented (1) as a need arose, (2) by modification of existing limits already in law, and (3) by making unit district rates the same as the combined rates of elementary and high school districts for taxpayer equity purposes.

8. Elementary and high school districts have a total of .585 percent more nonreferendum taxing authority than unit districts.

B. "CORPORATE PERSONAL PROPERTY REPLACEMENT REVENUE"

1. During fiscal years 1981 and 1982, approximately five percent of Illinois public school district total receipts were attributable to personal property replacement taxes. (This percentage was derived by dividing corporate personal property replacement revenues by total revenue for the corresponding year.)

2. The transportation and general state aid formulas together would replace, on average, between 60.2 and 63.7 percent of the Illinois public school district personal property replacement tax loss due to erosion or removal of the personal property tax base. It is important to note that not all districts would have 60 percent or more replaced.

3. The timing of the transportation and general state aid payments do not coincide with the time frame in which the personal property replacement tax gain or loss occurs. The transportation and general state aid formulas replace a portion of the personal property replacement tax loss, but replacement is not made until approximately two and one-half years after the year of the loss. The same is true of increases, in that reductions of general state aid would not occur before two and one-half years following the increase in CPPR revenue.

4. In the event that personal property replacement revenue is reduced to school districts in consecutive calendar years, the time lag between formula replacement and personal property replacement tax losses becomes most significant. Effectively, the first year personal property replacement loss is compounded by subsequent personal property replacement tax losses that occur prior to formula replacement.

5. The various types of Illinois public school districts (elementary, high school and unit) are not equally affected by personal property replacement tax erosion. In the base years for CPPRR calculations, elementary and high school districts did have an equal amount of personal property equalized assessed valuation, but varying district tax rates produced unequal personal property replacement tax entitlements.

6. Elementary and unit districts have higher general state aid EAV attributable to corporate EAV than high school districts. A greater percentage of elementary and unit districts have 30 percent or more of their general state aid equalized assessed valuation attributable to personal property replacement monies. Consequently, more elementary and unit districts are negatively affected by personal property replacement tax erosion or removal in the two years until the general state aid formula replaces them.

7. Elementary and high school districts are more negatively affected than unit districts by the use of the general state aid formula to replace CPPR revenue in terms of the percentage of CPPRR replaced by the general state aid formula.

8. Eliminating the dependence of the present distribution of corporate personal property replacement revenue on 1976 and 1977 collection data and replacing it with data which lends itself to being updated each year would bring distribution in line with more current economic and demographic events.

C. "THE IMPACT OF DIFFERENTIAL PROPERTY ASSESSMENT LEVELS UPON ILLINOIS FUNDING FOR EDUCATION"

1. The major policy issue related to property assessment and school funding is equity. Ideally, taxpayers and local school districts should be treated equitably in the generation of local revenues and in the distribution of state funds. A major conclusion of this study is that at least one of these publics is often treated inequitably and at the expense of the other. The nature of the general state aid formula and the administration of the property tax, including assessment practices, combine and interact to magnify these inequities.

2. The equalized assessed value per pupil is a less than desirable measure of local ability-to-pay. Most formulas used in the distribution of general state aid for education depend to one degree or another on property values as a measure of the local community's ability-to-pay for the education of its children. Equalized assessed valuation is the only measure of ability-to-pay in the formulas currently in use in Illinois.

3. Assessment practices around the state are not uniform. Some officials use computers and regression equations, while there is the contention that others employ pure guesswork and/or political negotiation.

4. The use of different classification systems in some parts of the state and none at all in other parts results in districts receiving inequitable shares of state aid and paying inequitable amounts of local taxes, while other districts receive less state funds than is equitable and pay higher local taxes than they should.

D. "COMPOSITION OF PROPERTY TAX BASE"

1. Of 1,012 Illinois school districts in 1979, 402 districts had over 50% of their total EAV in farmland.

2. Statewide assessment and taxation of utility plants would bring the following benefits:
   a. Better trained and more knowledgeable assessment officials could arrive at more equitable assessments of highly complex and difficult to assess properties.
   b. There would be an elimination of "tax havens" which result in a single district receiving the total property tax benefits when the utility actually serves many districts.

E. "REVENUE FOR ILLINOIS EDUCATIONAL NEEDS"

1. In the late 1970's, state support for Illinois school districts increased at a rate of 1.5 percent, while school expenditures increased by 10 percent per year.

2. Increases in assessed valuations in the 1970's have provided local school districts with increased tax revenues while state and federal funding has declined.

3. While Illinois tends to rely more heavily on the property tax than many neighboring states, the property tax burden, when analyzed against personal income, is nationally ranked very low (23rd) and the total tax burden ranks 35th. Therefore, although Illinois is a relatively high-tax state, it is also a populous, high-income state. Property taxes are high relative to state income taxes. However, compared with other states, there is nothing really exceptional about the Illinois tax structure. Property taxes are not unusually high and income taxes are low, but not unusually low.

4. Illinois ranks 37th in the United States for state support of education and 16th for local support.

5. Many of the state's present tax revenue sources were implemented during times of severe economic downturn, most notably during the Depression of the 1930's.

6. Earmarked revenue sources frequently tend to be elastic and unpredictable as to amount received from year to year. The state lottery receipts and federal general revenue sharing are prime examples of this elasticity.

7. A program of reducing property tax revenue and increasing income taxes has short-term and long-term effects. In the short term, reduced property taxes will generate windfall gains for property owners. Over the long term, renters may ultimately benefit somewhat. If income taxes were used to replace property taxes, the total tax payments of businesses, farmers, and homeowners would decline. Another probable effect of greater reliance on income taxes would be that the total amount of revenue for education would fluctuate with shifts in income levels.

8. Moderate increases in the Illinois individual income tax rate can raise relatively large amounts of revenue. A single percentage-point increase in the individual rate could replace seventeen percent of property tax revenue. If the corporate income tax rate were increased by a single percentage point, less than three percent of property taxes could be offset.

9. Illinois ranks lower in total state taxes, the individual income tax, sales tax, and motor fuel tax than all other states when comparing national averages of industrial states and averages of midwestern states.

Management of Resources

A. "OBSTACLES TO SCHOOL DISTRICT REORGANIZATION IN ILLINOIS PUBLIC SCHOOL DISTRICTS"

1. Separate elementary and high school districts currently have a greater access to nonreferendum taxing authority in some funds than do K-12 districts.

2. With the reorganization of districts under Articles 7-1, 11-1, or 11-6, combined districts may receive significantly less general state aid in the reorganized mode as opposed to their existing status.

3. The sharing of existing debt after reorganization may cause some districts to experience an additional tax burden.

4. The existing statutes are inconsistent in the limitations they place on some forms of district reorganization.

5. The protection afforded to affected districts in a reorganization under Article 11-6 may impinge on the petitioning districts' ability to effect change within their district structure.

B. "A REASONED BASIS FOR TAXING AUTHORITY"

1. The present tax structure serves as a disincentive to consolidation of elementary and high school districts into unit districts since elementary and high school districts have a total of .585 percent additional taxing authority in their operating funds.

2. In the school consolidation era of the 1940's, low tax-rate limits (for unit districts) were a selling point used by school community leaders to foster school consolidation. Today many school/community leaders oppose consolidation because these revenue limits remain on unit districts and the compensating benefits in general state aid have been removed.

C. "IMPACTS AND IMPLICATIONS OF ENROLLMENT CHANGES AND INFLATION ON PUBLIC SCHOOL REVENUES AND EXPENDITURES"

1. Based upon theoretical considerations, analysis of statewide data and data for individual school districts, it can be concluded that the enrollment declines experienced since 1971-72 have exerted an insufficient impact upon school district revenues to cause an actual decline in school district revenues in the majority of school districts or statewide because other factors operating during this period produced increases which more than offset decreases due to enrollment declines.

2. Total district expenditures for the period studied were not lowered for either a majority of school districts or for the public school system as a whole as a result of enrollment changes.

3. Inflation has adversely affected the overwhelming majority of school districts in terms of reducing the purchasing power of total district revenues. Also, due to inflation, total revenue has appeared to grow, when, in fact, the purchasing power of the revenue amounts is declining.

4. Inflation has adversely affected the overwhelming majority of school districts in terms of reducing the purchasing power of the total dollar expenditures of the districts. Again, as in the case of total revenues, the impact of inflation has been to create the appearance of increased total expenditures, when, in fact, purchasing power has declined.

5. The combined effects of both inflation and enrollment changes have resulted in substantially different effects at the district level of revenue analysis and the pupil level of revenue analysis. Most districts have lost real revenue purchasing power at the district level, while maintaining the purchasing power of revenues on a per pupil basis. However, this condition would be anticipated given the focus of state aid upon equalizing revenues on a per pupil basis.

6. The combined effects of both inflation and enrollment changes have resulted in different effects at both the district level of expenditure and the pupil level of expenditure. Again, most districts experienced a reduction in the purchasing power of expenditures at the district level, while continuing to maintain purchasing power on a per pupil basis.

7. Inflation and enrollment change have different effects upon districts of varying levels of wealth. That is, districts with low property values per pupil will, as a rule, be more negatively affected by both factors than will districts with high property values per pupil.

   Taken as a whole, these conclusions suggest that school district authorities may have limited ability to actually adjust expenditures in exact response to relatively small annual changes in enrollments. Stated another way, it may be that a number of years of sustained enrollment decline may be necessary before expenditure adjustments can be made.

D. "INDICATORS OF FISCAL CRISIS"

1. From 1971 to 1981, operating expense per ADA of Illinois school districts increased by 171% on average. Financially troubled school districts experienced increases of up to 462% in their operating expense during this time period.

2. Approximately 33 percent of Illinois school districts are currently forced to borrow monies from commercial sources each year.

3. The dollar amount of borrowing and the number of districts borrowing monies has decreased each year since 1978.

4. High school districts are much less likely to be in financial difficulty than unit or elementary districts.

5. Districts in financial difficulty are concentrated somewhat evenly throughout the state.

6. There was no discernable relationship between levels of operating tax rates and equalized assessed valuations per pupil among financially troubled districts.

7. The size of student enrollments has not been a common characteristic of financially troubled districts.

8. Thirty (30) out of the 128 districts which have a negative amount of combined operating fund balances are experiencing financial crises.

VII. Recommendations and Opinions

The recommendations presented in this section are listed in the subject categories: Distribution of State and Federal Funds, Generation of Revenues, and Management of Resources. The titles accompanying each recommendation refer to the Project staff report in which the recommendation originally appeared (although the TAP may have significantly refined any specific recommendation). Each recommendation should be considered in the context of the data and discussion of the staff reports and the integration of that information with all 25 studies and the issues of continuing concern expressed by the TAP as reported in this document.

Distribution of State and Federal Funds

A. "A COMPREHENSIVE SYSTEM FOR FINANCING ILLINOIS PUBLIC EDUCATION"

1. Based on the belief that the primary goal of a distribution mechanism in a comprehensive public school finance system is to enhance the equitable distribution of available resources to provide educational services to students, all state and federal funds, with the exception of federal Chapter I and Chapter II funds and funds for other federal programs that contain requirements that would make their inclusion in a Resource Cost Model based funding mechanism burdensome, should be distributed on an equalized basis through the use of a foundation formula with components as defined in the following recommendations.

Reservations/Dissents/Concurring Opinions — Nancy Brandt

a. This recommendation, as written, makes no provision for flat grants. Even though disequalizing in terms of the distribution of state funds, I believe flat grants contribute to fairness of another kind, i.e., some return from the state to all taxpayers who pay state income taxes, recently increased.

b. There was a lengthy discussion by this committee of the advantages and disadvantages of funding special education and certain other programs through separate, and perhaps different, RCM-based distribution formulae. In the interests of a unified educational community, I agree that all state aid distributed for the provision of educational services should be based on the Resource Cost Model and should be distributed on an equalized basis.

We should, however recognize the high cost of this action to some districts and the interaction of this proposed recommendation with that containing the inclusion of individual income in the measurement of district wealth. If an income measure is added, many of those districts now serving the largest numbers of special education students could lose all state aid currently received as reimbursement for this purpose, as well as for other purposes.

Reservations/Dissents/Concurring Opinions — Jim Jepsen
Garrett Deakin

While I agree that the equitable distribution of available resources would be enhanced if state and federal funds were distributed through an equalization formula, I believe that *separate* equalization formulas based on appropriate Program Cost Differentials and a Cost of Education Index should be established for each of the following program categories: special education, vocational education, adult education, bilingual education and pupil transportation. Separate funding formulas would enhance program accountability at both the state and local level. Given the complexity and administrative discretion implicitly required by the Resource Cost Model, separate funding formulas would provide the State Board of Education, General Assembly and the Office of the Governor with an opportunity to establish program priorities through the appropriation process. Separate funding formulas also may provide greater flexibility in complying with specific statutory requirements regarding the allocation of state and federal funds.

2. Unique local school district fiscal need should be measured through the use of the Resource Cost Model process and should serve as a primary basis for determining state funding for education. ("Local School District Fiscal Need")

Reservations/Dissents/Concurring Opinions — Jim Jepsen
Garrett Deakin
Pat McKenzie (except first paragraph)
Phil Gonet
David E. Elder

The development of appropriate Program Cost Differentials and a valid Cost of Education Index, accompanied by an income adjustment for district wealth, would represent a major improvement to the current school finance system in Illinois.

The report and recommendations of the Technical Advisory Panel, however, provide only a very general description of these components of the Resource Cost Model. In addition, the standards and procedures used in the development of the initial Cost of Education Index and Program Cost Differentials are currently being reviewed to assess their validity and to identify possible improvements. The specific procedures and criteria used in the development of the Cost of Education Index and Program Cost Differentials are based on a number of policy decisions and complex technical procedures which will have a significant impact on the resources provided to local school districts. While there is clearly a limit to the level of detail that can be included in these recommendations, I have strong reservations about supporting very general recommendations on issues as complex and important as the Cost of Education Index and Program Cost Differentials without identifying in some detail the specific procedures and standards upon which these factors are based.

There are a number of technical questions regarding the statistical procedures utilized in the development of the Cost of Education Index which also require further clarification:

- Do the statistical procedures provide a valid measure of "costs?" Are the statistical procedures simply a proxy for current expenditure patterns among school districts?
- Are the specific variables included in the CEI (e.g., price of agricultural land in the county, distance from nearest central city, number of districts in the county) causally related to differences in education "costs?" Are the observed relations spurious (i.e., do the variables simply reflect special characteristics, unrelated to differences in cost, of districts in a region with relatively high expenditures)?
- Would the use of other variables provide a more accurate measure of educational costs? How does the proposed Cost of Education Index compare with those used in other states?

- Is the CEI simply a measure of regional differences in expenditure patterns among school districts? Do the statistical relationships for the variables included in the CEI hold for all other school districts when Chicago/Cook County school districts are excluded from the calculations?
- What is the relationship between the CEI and district wealth?
- Will the use of the proposed CEI in the distribution of state aid reinforce or increase current expenditure variations among school districts?

There are a number of questions regarding the Program Cost Differentials which also require further clarification.

- Are the enrollment targets and program specifications reasonable in the context of available resources?
- What impact do the minimum enrollment levels and program specifications have on school district reorganization?
- Can program categories be consolidated to simplify the administration of the PCD without a significant reduction in program cost differentiation?
- Does the PCD create an incentive for districts to assign pupils to special/high cost programs?
- What procedures/standards will be implemented to assure that students are not assigned to special programs unnecessarily?

I believe that these issues need to be adequately resolved and that the specific procedures and standards used in the Cost of Education Index and Program Cost Differential should be specified before recommending the Resource Cost Model as the primary basis for determining state funding for elementary and secondary education.

Reservations/Dissents/Concurring Opinions — Nancy Brandt

What procedures/standards will be implemented to assure that students are not assigned to special programs unnecessarily?

3. Pupils enrolled linked to staffing assignments should be the basic unit of local school district need and should then be incorporated into the Resource Cost Model. Enrollment data should be adjusted by an attendance factor calculated by dividing average daily attendance by enrollment. Procedures should be established by the State Board of Education to insure that students are receiving the reported services. ("Local School District Fiscal Need")

4. Local school district fiscal capacity should be measured on the basis of a combination of equalized assessed valuation per pupil and individual income within local school districts. In order to implement this recommendation, the state should collect individual income data by school district. ("Income/Fiscal Capacity/Effort")

Reservations/Dissents/Concurring Opinions — Nancy Brandt

In the absence of sufficient additional state money to fund an appropriate level of educational services for all students in the state, some funds will have to come from a redistribution of current state funds, at least in the short run. The addition of an income factor to direct a portion of those funds to districts less able to raise local revenues has a "ring of fairness" to it.

However, this recommendation is too general for me to approve, particularly as it has a potential for such substantial redistribution of state funds. We have not yet been able to see simulations of changes in state aid by district type or by geographical regions.

The recommendation, as written, could give equal weight to income and property value as measures of fiscal capacity. Moreover, as written, the income factor applies to the distribution of all state funds. I believe either of these scenarios imposes too high a penalty on affected districts. New York State recently applied an income factor to only 5% of state funds distributed, as a case in point.

Reservations/Dissents/Concurring Opinions — Jim Jepsen
Garrett Deakin
David E. Elder

Implementation of an income factor in the measure of local school district fiscal capacity is essential to improve school district equity and to prevent distortion in the allocation of resources under the Resource Cost Model due to differences in district wealth. Until individual income data by school district is available from the State of Illinois, Census income data should be used in the measure of local school district fiscal capacity. The income factor used in the measure of local school district fiscal capacity should be based on a statewide average rather than an average by district type in order to avoid the regional bias in income levels by district type.

Reservations/Dissents/Concurring Opinions — G. Alan Hickrod

Implementation of an income factor in the measure of local school district fiscal capacity is essential to improve school district equity and to prevent distortion in the allocation of resources under the Resource Cost Model due to differences in district wealth. Until individual income data by school district is available from the State of Illinois, Census income data should be used in the measure of local school district fiscal capacity.

5. The operating tax rate should be used as the required qualifying rate in the state aid formula to measure local school district effort. ("Income/Fiscal Capacity/Effort")

B. "A REASONED BASIS FOR TAXING AUTHORITY"

The tax rates used in the general state aid formula should be changed to be aligned proportionally with the underlying statutory tax-rate changes. Adjustments to these qualifying rates should be made on a weighted proportion of educational costs based on program cost differentials.

C. "THE IMPACT OF DIFFERENTIAL PROPERTY ASSESSMENT LEVELS UPON ILLINOIS FUNDING FOR EDUCATION"

Since the local tax rate does not accurately measure effort, the formula to be used to distribute state aid should not rely on local tax rates as a measure of effort (other than for qualifying rates) unless a measure such as an effective tax rate can be developed.

D. "PROGRAM ADEQUACY"

1. The goals against which student needs are to be measured must be articulated by the State Board of Education and should be stated in such a manner that progress toward them can be measured.

2. These goals should serve as the basis for formulating specific standards which clearly establish the components of adequate elementary and secondary education programs.

Reservations/Dissents/Concurring Opinions — Jim Jepsen
Garrett Deakin
Pat McKenzie

Efforts to define educational goals and relate these goals to specific program standards and evaluation procedures should be an essential component of the school finance system. The success of such efforts, however, often depends on a degree of consensus and knowledge that does not exist. Efforts to define educational goals and relate these goals to specific program standards must recognize the diverse needs and goals of local school districts. Also, greater emphasis on the development of empirical evidence regarding the relationship between these goals and the specific program standards established by the State Board of Education will be necessary.

3. A wide range of Illinois citizens representing the general public, education, business/industry, labor, and government constituencies should participate in the process of formulating the goals, standards and program adequacy components.

4. These goals, standards and components should be the framework for developing a program adequacy assessment system.

5. The State Board of Education should utilize the evaluation results obtained from implementation of the program adequacy assessment system as the basis for ongoing decision making and policy development regarding:

   a. modification or continuation of the goals, standards, and program components and

   b. the generation and allocation of fiscal resources.

Reservations/Dissents/Concurring Opinions — Jim Jepsen
Garrett Deakin

Efforts to relate educational goals to specific program standards assumes a degree of consensus and knowledge that often does not exist. Greater emphasis on the development of empirical evidence regarding the relationship between educational goals and program standards established by the State Board of Education is necessary.

E. "LOCAL SCHOOL DISTRICT FISCAL NEED"

Further research should be conducted to ascertain the extent, if any, of additional fiscal burden placed on school districts that have high concentrations of poverty. Following conclusion of this poverty concentration research, if a need has been indicated, then specifications should be added to the Resource Cost Model to account for this burden. In the interim, a proxy should be used in the RCM to account for higher costs that districts with high concentrations of poverty experience for select support services (e.g. security, health services) at the school district level.

Reservations/Dissents/Concurring Opinions — G. Alan Hickrod
Fred Bradshaw

We demur, but not strongly, from this recommendation on the grounds that it may not be possible in the foreseeable future for the RCM approach to capture the exact or "true" costs of an *adequate* compensatory education program. The present state-of-the-art in school finance does not enable us to say precisely how much funds are needed to bring students from socially and economically deprived families into parity with students from families not so deprived. (Levin, Henry M., "Some Methodological Problems in Economic Policy Research: Determining How Much Should Be Spent on Compensatory Education," *Education and Urban Society,* May 1975.) Although we cannot determine exactly how much is really needed to "do the job" in compensatory education, we do know that Illinois does allocate a considerable amount of money for this purpose. In fact, though interstate statistics are none too trustworthy in this matter, it would appear that Illinois allocates far more than other states for K-12 compensatory educational purposes. (McQuire, Kent C., "1978-79 State Compensatory Education Characteristics and Current Funding Levels for Sixteen States," Education Commission of the States, Denver, 1979.) We strongly believe Illinois should continue this practice of providing considerable funding for poverty impacted schools.

Further, it is our judgment that there may be a structural weakness in the RCM approach in that the approach is primarily driven by differences in the characteristics of students, and not differences in the characteristics of districts. We argue that these are separate and independent cost factors. We believe districts also have different characteristics that produce cost differentials over and above the cost differences produced by the instructional programs which they provide. These district cost differences may not all be captured in the proposed cost-of-education index which is a part of the RCM procedure. If we are correct in this assertion, then the allocation procedure should include *both* costs derived from differences in student characteristics and costs derived from differences in district characteristics not captured in the cost-of-education index. Poverty impaction is a significant district cost characteristic, the full impact of which may not be captured in the CEI, and it should continue to be included in any Illinois grant-in-aid system.

The rationale for including poverty impaction in the Illinois grant-in-aid system has not changed since 1973 when it was first introduced. We believe that districts with high percentages of students from poverty impacted homes constitute very difficult learning environments for *all* students in those districts, regardless of the home background from which they come. To offset this difficult learning "climate," poverty impacted districts need additional funds for teacher aides, counselors, lower pupil/teacher ratios, optional instructional materials and hardware, including computer-assisted instruction, etc., etc. Whether the districts which have received state funds because of the poverty impaction factor in the present Illinois formula have actually used the funds for this purpose is a different policy question which needs discussion at another time and place. Candidly, it must be admitted that the poverty impaction factor does assist some Illinois school districts much more than others. Since 1973 the large urban school districts of Illinois and a group of more rural school districts in the deep southern part of the state have been the primary recipients of much of the assistance provided by the poverty impaction factor. We continue to believe that these same schools merit state help as much in 1983 as they did in 1973. In fact, their need may actually be greater *now* than it was *then*. We have some apprehension that Illinois education may be gravitating to a position of "high tech for the wealthy, and low tech or no tech for the poor." This is an important social issue which the RCM, including the CEI, may not now address. Thus, in our view, concentration of poverty children is not a "proxy" for anything; it simply constitutes an important dimension of district need that no Illinois allocation system should ignore. Obviously we are not opposed to further research on these controversial matters. In fact, we think such research is essential and should be supported by the ISBE, the Illinois School Problems Commission, and other interested bodies.

Reservations/Dissents/Concurring Opinions — Nancy Brandt (adapted from portions of preceding opinion)

It is my judgment that there may be a structural weakness in the RCM approach in that the approach is primarily driven by differences in the characteristics of students, and not differences in the characteristics of districts. I argue that these are separate and independent cost factors. I believe districts also have different characteristics that produce cost differentials over and above the cost differences produced by the instructional programs which they provide. These district cost differences may not all be captured in the proposed cost-of-education index which is a part of the RCM procedure. If I am correct in this assertion, then the allocation procedure should include *both* costs derived from differences in student characteristics and costs derived from differences in district characteristics not captured in the cost-of-education index. Poverty impaction is a significant district cost characteristic, the full impact of which may not be captured in the CEI, and it should continue to be included in any Illinois grant-in-aid system.

The rationale for including poverty impaction in the Illinois grant-in-aid system has not changed since 1973 when it was first introduced. I believe that districts with high percentages of students from poverty impacted homes constitute very difficult learning environments for *all* students in those districts, regardless of the home background from which they come. To offset this difficult learning "climate," poverty impacted districts need additional funds for teacher aides, counselors, lower pupil/teacher ratios, optional instructional materials and hardware, including computer-assisted instruction, etc., etc. Whether the districts which have received state funds because of the poverty impaction factor in the present Illinois formula have actually used the funds for this purpose is a different policy question which needs discussion at another time and place.

F. "EQUITY MEASURES"

1. The equity goals of the school finance system should be determined and explicitly stated.

2. Equity measures which are consistent with these equity goals should be utilized in annual evaluations of the system.

Reservations/Dissents/Concurring Opinions — G. Alan Hickrod

We (Ben C. Hubbard, Ramesh B. Chaudhari, and myself) strongly concur with this recommendation and point out that the Illinois School Problems Commission has supported many studies at the Center for the Study of Educational Finance at Illinois State University to do this over the last decade. On the whole, these equity studies at ISU show that the State of Illinois has moved progressively away from equity goals since 1977 or 1978. This situation of making progress on equity goals in the early 1970's and then retreating from equity goals in the late 1970's and early 1980's is consistent with findings in a number of other states. (See forthcoming special issues of the *Journal of Education Finance*.) On many of the equity indexes used by the Center, the equity situation in 1983 in Illinois is worse that the situation was in 1973 and may require attention by the Illinois courts. (Hickrod, Hubbard, and Chaudhari, "Decline and Fall of School Finance Reform in Illinois" the Center, 1983) We do further recommend that research on "adequacy measures" also continue as well as research on "equity measures," since the concepts of "equity" and "adequacy" are difficult, if not impossible to separate. (Chambers, Jay G. and Parrish, Thomas, "The Issue of Adequacy in the Financing of Public Education: How Much is Enough?" Institute for Research on Educational Finance and Governance, 1982, Stanford University.)

Generation of Revenues

A. "A REASONED BASIS FOR TAXING AUTHORITY"

1. The Illinois State Board of Education should submit legislation that would enact changes in the level of nonreferendum tax-rate limits for school districts. The new limits should be proportional by district type based upon student population and program cost differentials.

Reservations/Dissents/Concurring Opinions — Nancy Brandt

The discussions underlying this recommendation assumed (1) that changes in nonreferendum tax rates would affect all school districts within a single district type uniformly, whether or not the districts have voted tax rate limits in excess of current nonreferendum levels for certain funds and (2) that all funds would be affected, including transportation, working cash and life safety, in addition to the two major funds.

The discussions also assumed the recommendation could be implemented by increasing elementary and unit rates while holding high school rates at current levels; by decreasing all rates in varying amounts; or by some mixture of these approaches.

I can agree only under certain conditions that changes should be made in the level of nonreferendum tax rate limits. I would be in favor of increasing elementary and unit rates while holding high school rates at current levels, in all funds, in order to remove disincentives to reorganization into unit districts and to provide all districts access to the local base on a proportional basis. I am not, however, in favor of removing any amount of taxing authority in order to achieve proportionality, for the following reasons:

a. The big losers in rate realignment would be high school districts who would also be big losers (along with other suburban districts) in several of the equalization based recommendations located elsewhere in this study. It is not reasonable to send less state aid to these districts on the one hand and at the same time to decrease their ability to access the local tax base. For example, if an income factor is applied to EAV as the measure of local wealth, many high school districts will henceforth qualify only for minimal state aid, providing flat grants still exist and for no state aid, if they do not. To remove local taxing authority at the same time is to deny those districts any opportunity to recoup their losses through state aid.

b. A rate rollback in all or even most funds would cause serious revenue losses for these districts. Even if voted rate levels above nonreferendum rate levels were grandfathered, the rollback of a few cents in rate from such funds as working cash and life safety could represent serious revenue losses. A one cent reduction in rate for some high school districts represents $70,000 in tax revenues.

c. Mathematical equity in terms of rates, although important, should not be the highest priority. Local tax rates are the lifeblood of a large number of school districts who are already making a significant contribution in terms of the excellence of their program and the quality of their students' work. The current national emphasis on improving quality and student output is relevant.

Reservations/Dissents/Concurring Opinions — G. Alan Hickrod

I am not in favor of removing any amount of taxing authority in order to achieve proportionality.

Reservations/Dissents/Concurring Opinions — Jim Jepsen
Garrett Deakin

While it can be argued that the current nonreferendum tax rates for school districts do not provide "equal access" to local property tax revenues based on the proportion of students served and differences in program costs, I do not believe the changes in these tax rates required to implement this recommendaton are either justified or practical. Unit districts and elementary districts are not denied greater access to local tax revenues if a majority of the taxpayers in the district support an increase in the district's tax rates. General increases in property tax rates should be subject to voter approval. Similarly I do not believe that it would be appropriate to require a roll back of tax rates established in other districts in the name of equity. Such reductions would impair the quality of educational services which the taxpayers in these districts desire.

2. Permissive taxing authority for unit districts (including Chicago District 299) should be statutorily increased.

Reservations/Dissents/Concurring Opinions — Jim Jepsen
Garrett Deakin

While the current nonreferendum tax rates for unit school districts do not provide "equal access" to local tax resources when compared to the combined tax rates for elementary and high school districts, unit districts are not denied access to these revenues if the taxpayers in the district are willing to support such tax rate increases. General increases in property tax rates should be subject to voter approval.

3. Consideration should be given to allowing Chicago to tax for transportation purposes and downstate districts to tax for textbooks.

B. "CORPORATE PERSONAL PROPERTY REPLACEMENT REVENUE"

1. The State Board of Education should adopt policy positions in opposition to any new legislation that would erode corporate replacement revenues to local school districts without provision for replacement.

2. The State Board of Education should support a new study of the distribution of corporate personal property replacement revenue to school districts to determine whether such revenues 1) grossly distort equity measures and 2) permit districts to tax far below the qualifying rates for state aid.

3. If need can be empirically demonstrated, the State Board of Education should seek new funding sources in the event that personal property replacement taxes are further eroded or removed.

C. "THE IMPACT OF DIFFERENTIAL PROPERTY ASSESSMENT LEVELS UPON ILLINOIS FUNDING FOR EDUCATION"

1. The number of assessing districts should be reduced and the administration of the local property tax, particularly assessment practices, should be centralized at least to the county level.

2. Assessments and assessment procedures should be standardized based on state guidelines, and the enforcement powers of state officials should be increased.

3. The current method of classifying real property has adverse effects on school funding, but lacking more information on the appropriate way to resolve these problems, it is recommended that additional research be conducted to determine appropriate solutions.

4. The name or number of the school district in which a parcel of property is located should be included on the real estate transfer declaration that is completed when property is sold.

D. "COMPOSITION OF PROPERTY TAX BASE"

1. In order to improve the equity of the current property tax system, the State Board of Education should support the expansion of current state grants that provide property tax relief (e.g., circuit breaker) and should oppose general property tax reductions or exemptions.

2. The State of Illinois should assess for inclusion in the local property tax base of units of local government and school districts the real property of utilities used for the production, transmission or delivery of electricity.

Safeguards such as a phase out/phase in approach should be provided so that districts that would experience a substantial reduction in local revenue as a result of redistribution of the funds generated by taxing the electric utility's real property would not be required to suffer immediate interruption in educational programs. The safeguards should include provision for a substantial proportion of the assessment to be allocated to the units of local government and school districts in which such property is located and the remainder should be allocated statewide to other units of local government and school districts.

Reservations/Dissents/Concurring Opinions — Jim Jepsen
Garrett Deakin
Phil Gonet

The adverse impact of this proposal in school districts and other units of local government with high concentrations of utility property and the administrative and technical complications of implementing this proposal do not appear to be justified by the revenues which would be available for redistribution or improvements in statewide measures of equity.

E. "REVENUE FOR ILLINOIS EDUCATION NEEDS"

Illinois should increase state source revenues for education from nonearmarked funds. Increased state revenues should be used to improve both taxpayer and student equity, provide revenues needed to assure an appropriate level of educational services as defined by the Resource Cost Model, and move toward fulfilling the Constitutional directive that the State has the primary responsibility for funding education.

Management of Resources

A. "A COMPREHENSIVE SYSTEM FOR FINANCING ILLINOIS PUBLIC EDUCATION"

1. The Resource Cost Model should not provide disincentives to reorganization or consolidation. Financial incentives provided for school districts to reorganize into different organizational types should be separate from funds provided to districts to equalize educational resources.

2. The statutes regarding school district reorganization should be thoroughly reviewed for the purpose of removing disincentives to reorganization.

3. Consideration should be given to alternative ways of protecting the interests of communities in "affected districts" without thwarting the desires of citizens in "proposed districts."

4. The prior year Equalized Assessed Valuation should be used as the basis for establishing the amount of revenue to be extended for local school district levies. Collection and distribution years should remain the same. The amount so determined should be extended against the EAV of the year of levy.

   Reservations/Dissents/Concurring Opinions — Jim Jepsen
   Garrett Deakin
   Phil Gonet

   Under this recommendation school districts would be denied access for at least one year to local tax revenues based on increases in property value due to inflation and new development within the district. As such the property tax system would become even less responsive to local school district needs. Efforts to improve revenue projections for local school districts can be addressed more effectively by improving property tax assessment and collection procedures and strengthening budget and financial reporting requirements.

B. "A REASONED BASIS FOR TAXING AUTHORITY"

Reorganization of school districts should not be hindered by disproportionate tax rates. Maximum authorized tax-rate limits should be changed to eliminate obstructions to reorganization.

C. "IMPACTS AND IMPLICATIONS OF ENROLLMENT CHANGES AND INFLATION ON PUBLIC SCHOOL REVENUES AND EXPENDITURES"

1. There is a need to develop a measure of inflation, other than the Consumer Price Index, that is designed exclusively for use in school finance. The measure should reflect geographic differences in economic conditions over time and the resource consumption habits of reasonably well managed and effective school districts.

2. A study is needed to identify more precisely the changes in district-level expenditures that result from a change of one pupil in enrollment (i.e. marginal expenditure changes) within the context of an educational program of acceptable standards.

D. "INDICATORS OF FISCAL CRISIS"

1. The State Board of Education should introduce legislation that seeks to prevent local districts from incurring excessive short-term debt. Areas in which legislation should focus include:

   a. **The Working Cash Fund** — School districts should not be authorized to annually abolish the Working Cash Fund to finance school district operations. Prior to the abolition of a Working Cash Fund by a local school district, the State Board of Education should certify, in accordance with P.A. 82-0484, that a financial crisis exists and then the affected school district should adopt a three-year financial plan that has been approved by the State Superintendent of Education.

b. **Deficit Financing** — Districts should not be allowed to adopt a proposed fiscal year budget for the Educational, Operations, Building and Maintenance, Transportation, and Working Cash funds that projects expenditures that will exceed budgeted revenues and cash and cash equivalents by 10 percent. State monitoring should be implemented if actual expenditures from these funds exceed revenues and cash and cash equivalents for two consecutive years or if budgeted expenditures exceed projected revenues and cash and cash equivalents by 10 percent or more.

c. **Tax Anticipation** — School districts should be prohibited from selling two issues of tax anticipation notes or warrants for two different levies within the same fiscal year without the approval of the State Superintendent of Education and the approval of a three-year financial plan in accordance with guidelines established by the State Board of Education.

Reservations/Dissents/Concurring Opinions — G. Alan Hickrod
David E. Elder

In the main, we concur with these recommendations since they are aimed at good fiscal management; however, to the extent that they further prevent poor school districts from raising funds, even if on a questionable basis, the effect of the recommendations might be to build even greater expenditure disparities into the system. Special care should be taken in applying these restrictions to property poor school districts which are often those most in need of short-term debt.

2. The State Board of Education should support legislation that improves financial publication requirements for school districts. These reporting improvements should include:

   a. Replacing outdated and unnecessary portions of the required annual statistical statement for publication with more meaningful charts and graphic displays of expenditures and revenue data for the district. A structured set of questions should guide and provide opportunity for meaningful narrative explanation of district problems.

   b. Adding a full disclosure balance sheet to the annual financial report statements submitted to the State Board of Education. The additional statement should disclose major changes in financial status which may occur without cash being involved in the transaction. The statement should reflect uniform methods of recognizing property taxes receivable, other accounts receivable, major accounts unpaid and salary expenses due but unpaid.

3. All counties should be required by statute to adopt the accelerated billing method of property tax collection and distribution in order that initial collections could be made in the first quarter of the calendar year. Distributions should be made on a quarterly basis to help stabilize the cash flows of school districts.

4. The State Board of Education should propose legislation that provides statutory guidance for continued operation of a school district which closes for reasons of financial difficulty.

5. The State Board of Education should continue to develop and improve its financial planning, analysis and monitoring systems for Illinois school districts. If the State Board of Education's financial monitoring system indicates that a school district is approaching severe financial problems, the State Board should notify the district's administrators and board, as well as the citizens of the community, of its concerns. Staff of the State Board should serve an advisory role and assist local administrators and school boards in maintaining the integrity and control of their local system of financing education.

VIII. Appendices

Table 1

Comparison of Distribution of Pupils in Attendance and Pupils Enrolled for Selected Districts

District	1980-81 RCM Pupils Enrolled	% of Total RCM Enrollment	1980-81 TWADA (From 1981-82 General State Aid Claim)	% of Total 1980-81 TWADA
Unit Districts				
Chicago 299	453,330	22.71	564,707	25.88
East St. Louis 189	21,414	1.07	28,676	1.31
Peoria 150	19,988	1.00	21,830	1.00
Cairo 1	1,338	.06	1,826	.08
Springfield 186	15,311	.76	17,556	.80
Normal 5	6,459	.32	7,175	.32
High School Districts				
Belleville Twp. H.S. 201	5,068	.25	6,234	.28
Carbondale H.S. 165	1,311	.06	1,600	.07
New Trier Twp. H.S. 203	5,006	.25	6,230	.28
Twp. H.S. 113 (Lake County)	4,399	.22	5,335	.24
Mt. Vernon Twp. H.S. 201	1,666	.08	2,126	.09
Glenbard Twp. H.S. 87	7,907	.39	9,393	.43
Elementary Districts				
Belleville 118	2,837	.14	2,877	.13
Carbondale Elem. 95	1,500	.07	1,700	.07
Wilmette Elem. 39	2,832	.14	2,786	.12
Zion Elem. 6	2,626	.13	2,560	.11
East Moline 37	3,024	.15	2,928	.13
East Peoria 86	2,628	.13	2,466	.11

Table 2

Wealth Rankings of Selected Districts When Using Enrollment, Attendance, Population as Standardization of Wealth

	Rank When Based On		
District	**EAV RCM Enrolled Pupil**	**EAV ADA**	**EAV Population (Capita)**
Elementary Districts			
Mulkeytown 32	1	1	5
Kenilworth 38	173	171	311
LaSalle 122	271	255	120
East Peoria 86	303	302	336
McAuley 27	436	436	436
High School Districts			
O'Fallon H.S. 203	5	1	12
North Chicago 123	14	23	2
Carbondale 165	42	46	5
Evanston Twp. 202	75	74	36
Seneca 160	124	124	124
Unit Districts			
East St. Louis 189	1	1	1
Chicago 299	137	166	68
Charleston 1	215	226	64
Springfield 186	312	324	47
Byron 226	448	448	448

Table 3

Sample Changes in Permissive Taxing Authority By Fund and School District Type

Fund	District Type	1980 Permissive Taxing Authority	Increased Permissive Taxing Authority	Decreased Permissive Taxing Authority
Educational	elementary	.920	1.500	.99
	high school	.920	.920	.61
	unit	1.600	2.420	1.60
Operations, building and maintenance	elementary	.250	.410	.223
	high school	.250	.250	.137
	unit	.375	.660	.360
Transportation	elementary	.120	.195	.075
	high school	.120	.120	.045
	unit	.120	.315	.120
Working cash	elementary	.050	.080	.031
	high school	.050	.050	.019
	unit	.050	.130	.050
Fire prevention, safety, environmental and energy	elementary	.050	.080	.031
	high school	.050	.050	.019
	unit	.050	.130	.050
Special education building program (not included in OTR)	elementary	.020	.030	.025
	high school	.020	.020	.015
	unit	.040	.050	.040
Total of funds included in operating tax rate	elementary	1.39	2.276	1.35
	high school	1.39	1.39	.83
	unit	2.195	3.65	2.18

Table 4

Public Utility Equalized Assessed Valuation (Dollars and Percentage of District EAV), Operating Tax Rates, Expenditures Per Pupil For Selected School Districts[a] With Large Public Utilities

County/School District Name	Utility EAV[b]	Percentage Utility EAV Is of District EAV[c]	OTR[d]	Operating Expenditures Per Pupil[e]
Cook/Lyons 103	53,507,959	33	1.5651	2,088
DeWitt/Clinton 15	271,445,038	100	2.1538	2,290
Grundy/Coal City 1	86,913,049	60	1.8813	2,237
Grundy/Morris 54	198,535,656	71	1.0544	2,584
Grundy/Morris 101	202,805,879	65	1.1511	3,991
Jasper/Jasper 1	107,493,021	63	1.909	2,311
Lake/Zion 6	145,940,605	62	2.036	2,162
Lake/Zion-Benton 126	145,940,605	46	1.813	3,216
LaSalle/Seneca 160	300,000,000	100	.4738	6,224
LaSalle/Seneca 170	300,000,000	100	.5733	3,123
Madison/Venice 3	10,944,700	84	3.2905	3,371
Mason/Havana 126	21,175,494	38	2.2442	1,779
Massac/Joppa 21	16,245,765	41	1.3052	7,787
Morgan/Meredosia 11	8,946,608	34	2.2137	2,745
Ogle/Byron 226	210,664,671	100	1.476	2,843
Peoria/Hollis 328	11,998,800	69	1.2461	3,166
Randolph/Red Bud 132	37,741,886	51	2.1641	2,606
Sangamon/Pawnee 1	15,522,180	33	2.2668	2,371
Whiteside/Erie 1	19,871,369	33	2.068	2,802
Will/Reed Custer 255U	128,248,139	100	3.0900	2,790

[a] School districts in which 33 percent or more of the tax base is derived from the utility.

[b] Calculated by dividing 1981 utility property taxes paid in 1982 by 1981 total tax rates.

[c] Calculated by dividing 1981 constructed utility EAV by 1980 total real EAV. As a result of inflation, in some cases 1981 utility EAV is greater than 1980 real EAV.

[d] 1980 OTR

[e] Estimated 1981-82 current operating expenses divided by RCM enrolled pupils.

Table 5

Median Operating Tax Rates, Equalized Assessed Values Per Pupil and Operating Expenditures Per Pupil for All Districts and for Selected School Districts With Large Public Utilities

	All Districts	Districts with Public Utilities
Median OTR's[a]		
Elementary Districts	1.914	1.2461
High School Districts	1.612	1.2281
Unit Districts	2.761	2.1641
Median EAV's Per Pupil[b]		
Elementary Districts	$ 62,859	$142,981
High School Districts	$120,041	$426,934
Unit Districts	$ 40,710	$106,853
Median Operating Expenditures Per Pupil[c]		
Elementary Districts	$ 2,137	$ 2,584
High School Districts	$ 3,073	$ 5,107
Unit Districts	$ 2,196	$ 2,606

[a] 1980 OTR's
[b] 1980 EAV per OTR's RCM Enrolled Pupil
[c] Estimated 1981-82 Operating Expenditures per RCM Enrolled Pupil

Footnotes

[1] Arthur E. Wise and Linda Darling-Hammond, "Educational Needs: Accounting for School Finance," in *Perspectives in State School Support Programs*, ed. by K. Forbis Jordan and Nelda H. Cambron-McCabe (Cambridge, Mass.: Ballinger Publishing Company, 1981), p. 283.

[2] W. I. Garms, J. W. Guthrie, and L. C. Pierce, *School Finance: The Economics and Politics of Public Education* (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1978), pp. 201-211.

[3] See J. Dan Hou and Warren B. Carson, *Alternative Measures of Local Wealth and Effort*. (Springfield, Ill.: Illinois State Board of Education, 1977), and E. Kathleen Adams and Allan Odden, "Alternative Wealth Measures," in *Perspectives in State School Support Programs*, ed. by K. Forbis Jordan and Nelda H. Cambron-McCabe (Cambridge, Mass.: Ballinger Publishing Company, 1981), pp. 143-168.

[4] *Ibid.*

Exhibit A

Data Components Used in Simulations

Data Item	
1979	OTR
1981-82	General State Aid
1980-81	ADA
1980-81	TWADA from 1981-82 General State Aid Claim
1979	EAV (including CPPRR EAV)
1979	EAV (excluding CPPRR EAV)
1980	OTR
1980	EAV (including CPPRR EAV)
1980	EAV (excluding CPPRR EAV)
1980-81	Total Transportation Claim Amount (Regular, Vocational and Special Education)
1980-81	State Gifted Total Claim
1980-81	Adult Education Total Expenditures for LEA's
1980-81	Federal Title I Total Expenditures and Obligations
1980-81	Special Education Federal 89-313 FY 82 Grants
1980-81	Special Education Federal 94-142 FY 82 Grants
1980-81	Special Education Orphanages Final Expenditures - Group
1980-81	Bilingual Claim Amount
1980-81	Federal Title VII Grant Amount (Bilingual)
1980-81	Special Education Personnel Total Reimbursement
1980-81	Special Education Extraordinary Total Claim Amount
1980-81	Special Education Private Facilities Total Claim Amount
1980-81	Special Education Orphanages Total Claim Amount—Individual
1981-82	Summer School Special Education Claim Amount
1981-82	Special Education Summer School Orphanages—Group-Final Expenditure
1981-82	Special Education Summer School Orphanages—Individual Total Budget
1981-82	Gifted Final Expenditure Report
1981-82	Federal Title I Final Expenditure Report
1981-82	Bilingual Final Expenditure Report
1981-82	Adult LEA Final Expenditure Report
1981-82	Special Education Orphanages Final Expenditures—Group
1981-82	Special Education Orphanages Summer School-Final Expenditures-Group
1980	District Population
1980-81	Current Operating Expenditures
1981-82	Total Transportation Expenditures (Regular, Vocational, and Special Education)
1980	Educational Fund Tax Rate
1981-82	Special Education Personnel Local Salary
1981-82	Special Education Extraordinary "Educational Cost This Pupil"
1981-82	Special Education Private Facilities "Educational Cost This Pupil"
1981-82	Special Education Orphanages-Individual "Educational Cost This Pupil"
1981-82	Special Education Orphanages Summer School Individual—"Cost This Pupil"
1980-81	Vocational Education Claim Reimbursement
1980-81	Area Vocational Center Equipment Grant
1980-81	General Revenue Vocational Education Equipment Grants
1981-82	Total Vocational Education Expenditures— Secondary
1981-82	89-313 Final Report Total Expenditures and Obligations
1981-82	94-142 Final Report Total Expenditures and Obligations
	Title I Eligibles (from 1981-82 General State Aid Claim)
1982-83	General State Aid
1981	Public Utility EAV

1980	CPPRR
	RCM Average Cost Per Pupil Per District
	RCM Total Cost
	RCM Instructional Cost
	RCM Program Administration Cost
	RCM District Administration Cost
	RCM Regular Elementary Cost
	RCM Regular Secondary Cost
	RCM Special Education Cost
	RCM Gifted Education Cost
	RCM Vocational Education Cost
	RCM Compensatory Education Cost
	RCM Bilingual Education Cost
	RCM Adult Education Cost
	RCM Total Enrollment
	RCM Transportation Costs

Exhibit B

Formula Configurations Used in Simulations

The formula for generating simulations that compare 1981-82 general state aid and categorical claim amounts with estimated 1981-82 state and federal funds based on the use of the Resource Cost Model is as follows:

1. State aid = Need — (Wealth x Effort)

   a) Need = Resource Cost Model total dollars — Resource Cost Model compensatory education dollars + Resource Cost Model transportation dollars.

   b) Wealth = [1979 General State Aid Equalized Assessed Evaluation (includes adjustment for Corporate Personal Property Replacement Revenue)] ÷ [(1980 public utility taxes 1981 ÷ Operating Tax Rate) x index of income (median, median family income by district type)]

   c) Effort = 1979 Operating Tax Rate (varies)

The formula for generating the 1981-82 revenue base consistent with whatever changes were simulated in state aid and local tax rate provisions is as follows:

2. Total revenue base = State funds + Local funds + Federal funds + Corporate Personal Property Replacement Revenue.

   a) State and federal funds = funds generated under the provisions of companion simulations as described above.

   b) Local funds = [1980 Real Equalized Assessed Evaluation ÷ (1980 public utility taxes ÷ 1981 Operating Tax Rate) x 1980 Operating Tax Rate (consistent with companion printout, that is increased/decreased to examine the effect).

Exhibit C

Illinois Public School Finance Project Studies

1. "Alternative Methods of Counting Pupils"
2. "A Reasoned Basis for Taxing Authority"
3. "Impacts and Implications of Enrollment Change and Inflation on Public School Revenues and Expenditures"
4. "Categorical Funding of Select Illinois Educational Program Categories"
5. "Obstacles to School District Reorganization in Illinois Public School Districts"
6. "Federal Impact Aid—Funding of Unique Educational Needs of Federally Connected Pupils"
7. "Corporate Personal Property Replacement Revenue (CPPRR)"
8. "The Impact of Differential Property Assessment Levels upon Illinois Funding for Education"
9. "Composition of Property Tax Base"
10. "Municipal Overburden"
11. "Indicators of Fiscal Crisis"
12. "Standardization of Fiscal Capacity Measure"
13. "Equity Measures"
14. "Impact Aid: Fiscal Capacity"
15. "Local School District Fiscal Need"
16. "Program Adequacy"
17. "Revenue for Illinois Educational Needs"
18. "Income/Fiscal Capacity/Effort"
19. "Alternative Mechanisms for Distributing State and Federal Funds for Illinois Public Elementary and Secondary Education"
20. "The Development of a Resource Cost Model Funding Base for Education Finance in Illinois"
21. "A Comprehensive System for Financing Illinois Public Education"

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